SMALL BUSINESS ADMINISTRATION PROGRAM REVIEW
(Part 2)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON SBA AND SBIC AUTHORITY, MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

HOUSTON, TX, APRIL 10, 1985; NEW ORLEANS, LA, APRIL 11, 1985; AND CHICAGO, IL, APRIL 19, 1985

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SMALL BUSINESS ADMINISTRATION PROGRAM REVIEW

(Part 2)

WEDNESDAY, APRIL 10, 1985

House of Representatives, Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems, Committee on Small Business,

Houston, TX.

The subcommittee met, pursuant to notice, at 9 a.m., in courtroom 13, Bob Casey Federal Building and Courthouse, Houston, TX, Hon. Parren Mitchell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. Mitchell. The hearing will now come to order. There will be other witnesses that we have scheduled for all day long and they will arrive at the time they are to present testimony.

I am very pleased to be here this morning with my colleague, Congressman Charles Hayes, who came in from Chicago. He is a member of the Small Business Committee and certainly one of the most hard-working members.

As you know, the President has proposed the elimination of the Small Business Administration. Clearly all financial assistance programs would be repealed; however, the President is proposing that a few programs, such as innovation and research be transferred to the Department of Commerce.

In my opinion, such a transfer merely means the death of those programs. I have been around Washington long enough and I have been in Government service long enough to know that if you want to end a program, you transfer it to another department.

When it gets to that other department, it is ignored and it dies, and I think that is what will happen here.

At these hearings we will be seeking the views of small businesses which have participated in the SBA Programs. These views and recommendations from those who have actually received help from the agency are very important to us, as they supply firsthand knowledge of the effectiveness of the programs and their worth as expenditure of tax revenues.

Mr. David Stockman, as you know, has been one of the leaders in calling for the dismantling of the Small Business Administration. I am absolutely convinced that he has no firsthand knowledge. He has not heard from the people who have benefited from these programs.

Today here in Houston we will be receiving testimony from those who have had some experience with programs of the Small Business Administration.

There is one other comment I want to make for the record, and that is the idea of the shortsightedness of the President's proposal to eliminate SBA. The SBA has a portfolio of loans of almost $10 billion.

The proposal is to sell those loans to improve the cash flow. Stockman, of the Office of Management and Budget, includes the sale of $9.8 billion in loan assets over 4 years, but he projects that if we do that, the yield will only be $1.83 billion.

Thus, if his proposal is allowed to go through, we will be receiving only 19 cents on every dollar. Now, obviously any investor around the country would go for that. They would grab that up. The investors' yield would certainly be in excess of maybe 40 to 60 percent, but if this is what they are proposing at such a low level, then I, as an investor, or anybody else as an investor, would seek to buy up this loan portfolio.

I want to state that we certainly appreciate the appearance of the small businesses and other witnesses before us today. I realize it is an enormous sacrifice if you are in business to come to a hearing.

An hour away from your business is a loss of money, and I am just grateful that all of you who will testify today will have made the sacrifice and we are most appreciative.

I am going to introduce the staff present with us in a minute, but first I will ask Congressman Hayes if he has any remarks.

Mr. HAYES. I can only say amen to the things that you had said, Mr. Chairman. I want to commend you for the scheduling of these kind of hearings at such a crucial time, because the survival of the agency, the Small Business Administration as an agency or an entity of the Federal Government is at stake, as you have said.

And we have to get a reading, I guess, from people who have benefited or who would like to benefit by this kind of program and use that as the measure of trying to protect the survival of the small business entity as a part of Federal Government function. I do hope that the witnesses here do see, as we see it, that one of our main interests is the fact that small business is a source of jobs for people.

I see we have a very impressive and extensive list of witnesses; so the time I might utilize in a preliminary way could be very well used for hearing from the witnesses.

Thank you much for the time, Mr. Chairman.

Mr. MITCHELL. Thank you. Seated to my right is Mr. Tom Powers, who is the legal counsel for the Small Business Committee, and Ms. Christine Russell, who is not here, who will return, represents the Republican side—the minority side of the staff for the Small Business Committee.

Mr. Robinson, I understand you are serving as the mayor pro tem for Houston. Let's hope it is a quiet and tranquil time while you are serving in that position. I thank you very much for being here and we would be delighted to hear from you at this time.

TESTIMONY OF HON. JUDSON ROBINSON, JR., MAYOR PRO TEM, HOUSTON, TX

Mr. Robinson. Thank you very much, Mr. Chairman, and I might add that it is a pleasure, and on behalf of Mayor Whitmire and all on the council, we say welcome to you and to Congressman Hayes to Houston.

I had the great pleasure several years ago of meeting you at the airport when you were in Houston and spoke to a group for us some years ago, and it is pleasure to see you back in Houston.

Thank you for what you are doing, because we in the small business community appreciate SBA and all that it does mean.

I have prepared statements that I have given to our lawyer, and hopefully during the course of these meetings you will have a chance to review them, but I thought that since I am a product of SBA that I would take a couple of minutes to tell you of my personal experiences with SBA.

My name is Judson Robinson, Jr., and I am president of Judson Robinson & Sons. We are a family-owned mortgage company, insurance agents, and real estate company. We have been in the business here in Houston starting in 1944.

We are the largest and I think one of three minority-owned mortgage companies in this part of the State. So we have had some experiences with SBA.

Our first encounter with SBA personally occurred in 1968. At that time we were looking for opportunities in other areas of development. We were the first approved black-owned, black-financed food products company here in Houston.

We were awarded the first franchise from Burger King Corp. in 1968. We received an SBA loan in 1968, and I am very pleased to say that this loan was paid out ahead of time, some 3 years ahead of time, and it started us in the food servicing business.

At the time that we sold our businesses in 1978, we had grown from one small Burger King restaurant to a total of three. I am happy to say that two of those three businesses are still very, very active in our community, both owned by persons from the minority community and are doing very well.

Our second experience with SBA came several years later. We had the opportunity of being one of the pioneers in the automobile business. Ford Motor Co. at that time was interested in minority involvement in the automobile business.

We were given an opportunity to buy an automobile dealership in Angleton, TX. There again, when money became an issue, I am happy to say that SBA came to our rescue, and we were the first in business in this part of the country, black-owned and operated automobile dealership in the Houston-Angleton area.

This loan was paid back in 24 months. It was a 60-month loan, and we were able to pay the loan back in 24 months.

SBA has been a beacon to us in the minority community. I am privileged to serve on the bank here in town. The bank is known as Riverside National Bank. And I am here to say that we have been very, very fortunate in that we have had a number of loans that we have been able to handle through our bank that were guaranteed by SBA.

And I might add, had these loans not been guaranteed by SBA, I am afraid that these persons who had ideas and visions of going into business for themselves would probably still just have visions and dreams, rather than the reality of being in business.

I think SBA serves a purpose. In the city of Houston, for example, some $30 million over the past 2½ years have been made available to minority people here in the Houston community. I think that is a significant number; $30,580,000 has been made available to minority persons here in the Houston community in the past 2½ years.

A total of $100,680,000 has been loaned to industries, minority, women, in the last 3 years here in the Houston community. We feel here in Houston that without SBA the goals, the dreams, the objectives of persons throughout our community who have the foresight to dream would all be in vain if it were not for SBA.

So Mr. Chairman, on behalf of a businessman who is there, who is in the trenches, as it were, on a day-to-day basis, we encourage and support your efforts and the efforts of your committee in the continuation of SBA—not only the continuation, but the expansion, and I thank you very much for having me here as a witness, Mr. Chairman.

Mr. MITCHELL. And I thank you for coming. This is what I expected to hear, and this is what the Stockmans of the world don't hear—the true story of what is going on in terms of the benefits and the economic growth that accompanies SBA programs.

Do you have any questions, Congressman Hayes?

Mr. HAYES. No questions.

Mr. MITCHELL. Well, Mr. Mayor—I am shifting now from your businessman's role to your other role—I want to thank you for all the kindnesses that the city has shown to us since we arrived, and I just want to pledge to you that we are in an all-out fight to prevent the dismantling of the SBA programs. It just doesn't make sense.

Mr. ROBINSON. That is right, sir.

Mr. MITCHELL. Thank you so much for being here.

Mr. ROBINSON. Thank you very much, sir. I appreciate it.

[Mr. Robinson's attachment to testimony follows:]

ATTACHMENT TO TESTIMONY OF HON. JUDSON ROBINSON, JR., MAYOR PRO TEM, HOUSTON, TX

SMALL BUSINESS ADMINISTRATION

General facts

98% of all businesses are called small businesses.

Most new jobs are created by small business, contributing two out of three new jobs.

Small businesses produce twice as many innovations per employee as larger firms.

Small businesses account for 38% of the nation's Gross National Product (GNP).

SBA services

Management assistance.—

1. Counseling: SCORE (Service Corps of Retired Executives) and ACE (Active Corp of Executives) conduct most of the counseling. No charge for services as SCORE and ACE members are volunteers. The three chapters in the Houston District are Houston, Beaumont and Bryan/College Station with about 150 members

2. Training: Pre Business workshops are held for those thinking of going into business or have been in business less than 1 year. These workshops are conducted twice per month with attendance averaging 75/100 each class.

3. Publications: Free and For Sale publications on small business are available from SBA.

Procurement (Government Contracts).—

1. The SBA assists small businesses in getting their fair share of government contracts. SBA keeps a bidders list for interested businesses.

2. Procurement Automated Source System (PASS) is a computerized listing of Small Business sources, available to Government sources, available to Government and Industry buyers.

Advocacy.—

1. SBA serves as Ombudsman for all Small Businesses.

Data on the Houston area

The Houston Regional Office serves 32 countries, 80,000 small businesses and 40 SBA employees.

During the last 3 years the local Houston office has provided financial assistance to 808 small businesses.

Financial assistance during the last 3 years totaled $109,698,000, the majority helping businesses in the Houston SMSA.

During the last 2½ years the total of 8(a) (Minority Enterprises) financial assistance totaled $30,580,000, the majority helping businesses in the Houston SMSA.

Management assistance during the last 3 years included counseling 8,763 cases.

Over 225 Training Sessions (Workshops, Seminars) were held in the past 3 years with training hours totaling 85,743, and 11,433 attendees.

The Short Stop

Owner: Archie Mangram Jr.; Black male; 3266 South Loop West, Houston, TX 77025; Employees: 6.

$99,100 loan approved October 1984; Business: retail men's clothing specializing in clothing for short men; Started: November 1981.

Jim Ray Co., Inc.

Principal: James E. Ray; White male; 6245 Corporate Drive, Houston, TX 77036; employees: 7.

$100,000 loan approved April 1981; Business: wholesale distributor of packing and gaskets; Started: 1976.

Forged Vessel Connections, Inc.

Principal: Karl J. Lyons; White male; 2525 DeSoto Street, Houston, TX 77091; employees: 57.

$900,000 loan approved March 1985; Business: manufactures pressure vessel nozzles; Started: 1976.

Stockdale, Inc.

Principal: Louise W. Stockdale; White female; 1525 N. Post Oak Drive, Houston, TX 77055; employees: 5.

$125,000 loan approved December 1979; Business: wholesale distributor of rust prevention materials; Started: 1956.

Neal's Italian Ices, Inc.

Principal: Neal Elinoff; White male; 2826 Kirby Drive, Houston, TX 77098; employees: 14.

$65,000 loan approved April 1981; Business: retail ice cream. Started: 1980.

Rio Grande Associates, Inc.

Owner: Dr. Margarita Melville; Hispanic female; One Allen Center, Suite 1000, 500 Dallas, Houston, TX 77013; (713) 674-0052.

Contract dollar amount for 1984 & 1985: $978,142; Business: research and development; Admitted: December 6, 1980; FPPT: April 8, 1986.

A requirement pending, estimated amount of $600,000 with the Department of Air Force.

Mr. MITCHELL. Our next panel will consist of Mr. Bonar, president of Universal Urethanes, Inc.—is Mr. Acosta here, or Mr.

Roach, or Mr. Emerson? Rather than hold you, let's go with you, sir.

Mr. Bonar, why don't you lead off? I think we have copies of your testimony. Is that correct? And we have a copy of Mr. Emerson's testimony; so if you so desire, you can just give us the highlights of your testimony, since we have the written copies available.

TESTIMONY OF BYRON L. BONAR, PRESIDENT, UNIVERSAL URETHANES, INC., HOUSTON, TX

Mr. **Bonar**. Well, essentially, our company is an outgrowth of another similar Houston-based firm. In 1975 the original company was split up and we were to have received 50 percent of their assets in an amount of approximately $1.5 million.

We got a complete manufacturing facility, other real estate and various machinery, trucks, equipment, et cetera. We were also to have received a sizable cash settlement which has never been paid.

Not having received this left us in quite a predicament trying to reestablish ourselves in business. After soliciting loans from three downtown Houston banks and being refused, we contacted the SBA. Of the three banks they suggested, we chose Charter Bank.

Our loan, with SBA guarantees, was for $400,000 and was used for operating and outfitting our new Houston facility, which manufactures flexible polyurethane foam. This was paid off in the prescribed 7 years.

We are most grateful and appreciative of the SBA and Charter Bank and their officers. Under the circumstances, we could not have done what we have without them—that is about it.

[Mr. Bonar's prepared statement follows:]

PREPARED STATEMENT OF BYRON L. BONAR, PRESIDENT, UNIVERSAL URETHANES, INC, HOUSTON, TX

Universal Urethanes, Inc. was founded in 1975 for the purpose of manufacturing, fabricating and distributing flexible polyurethane foam cushioning materials. A product extensively used in furniture, bedding, automobiles, carpeting, packaging, etc.

The principals of our company were previously associated with a similar based Houston company through employment and 50% stock ownership.

During 1974-75 irreconcilable differences surfaced, resulting in the break-up and division of that company's assets. A negotiated agreement gave us a foam factory and land in Mansfield, Texas, buildings and land in Houston and Mt. Vernon, Texas, an assortment of trucks, trailers, machinery, equipment, automobiles, etc. and a cash settlement to be paid over a six month period.

Virtually everything we received was debt free. Our only problem with the arrangement was the other party's default on the entire cash settlement. We filed suit immediately and four years later prevailed. (We won everything, they filed Chapter 11, we have collected nothing.)

With over 1.5 million in assets and little or no liabilities, we did not anticipate any difficulty in obtaining financing to outfit our new Houston plant with the necessary machinery, equipment and feed stocks.

To the contrary, 1975 proved to be a very difficult year to borrow and the weeks that followed brought many refusals and disappointments. We finally contacted Mr. Bill Love with the Small Business Administration in Houston and he gave us a list of three local banks as prospects. We chose Republic National Bank, now Charter Bank Houston, and borrowed $ 400,000.00 with SBA guarantees plus pledges of certain assets.

These funds were used for the Houston plant as stated and the loan was retired in the seven years stipulated. (Never a late payment.)

As a matter of information, our company is approaching seven million dollars annual sales. We employ between 55 and 65 people average annually. Our territory of operation includes Texas, Louisiana, Arkansas, Oklahoma and New Mexico.

Understandably, we "picked" a bad time to establish a new business and under different circumstances might well have succeeded without the SBA's assistance. Discounting conjecture and accepting the facts, we feel a strong debt of gratitude to Bill Love and SBA and our friend Bill Sewell at Charter Bank Houston. We could not have done it without them.

Mr. MITCHELL. Thank you. What I would like to do is to hear from the other two panelists and then we will raise some questions to all three of you.

Mr. Emerson.

TESTIMONY OF GARY EMERSON, CHIEF EXECUTIVE OFFICER, NU-WAY, INC., HOUSTON, TX

Mr. EMERSON. My statement is very short; so I will just read it to you. Basically, I titled it "How the SBA Helped Nu-Way," which is the name of our company.

Nu-Way was incorporated in April 1977. We enjoyed several prosperous years in the greater Houston area supplying miscellaneous iron to the builders in the area. In 1981, due to above normal interest rates, builders and subsequently Nu-Way suffered larger than reasonable losses; 1982 and 1983 became survival years for our company and many companies in the area; 1984 came along with promise of a modest recovery and reasonable profits. Then the big problem—where do we get the capital to gear back up to supply goods necessary to produce profits?

We have a company that was founded and operated under a very conservative basis. We have a financial statement that has good hard assets, but shows sluggish profits for the past 2 years and a large loss 3 years back. To top it all off, the bank we had been doing business with for years is being purchased by a holding company and has replaced our banker with young blood. All this adds up to no deal.

Where now? We go to a new bank and they want to help. The SBA is brought into the picture with its guarantee program and the deal works. The SBA guarantees a loan with a value of approximately 20 percent of the collateral it takes; certainly a safe position for the SBA and the bank. The company has a chance to stage a comeback and supply jobs for approximately 50 workers.

That is basically the short and sweet of it.

Mr. MITCHELL. Thank you.

Mr. Roach, we have a copy of your testimony and, again, I am delighted that you could be here and you can just feel free to speak to your testimony.

TESTIMONY OF PAL A. ROACH, OWNER, SOFTWARE GALERIA, HOUSTON, TX

Mr. ROACH. By way of background, our business is called Software Galeria. It is a computer retailer. We sell computer products, computer hardware, software, supplies, and services.

Our customers are typically businesses, institutions, and corporate type accounts. Product line includes leading products in the computer industry today—AT&T, IBM, Apple, Epson.

Services that we offer include technical support, product evaluation, and customer training.

Initial capitalization for our business was provided through the SBA Guaranteed Loan Program. The business is structured as a family-owned business and we are a proprietorship.

The computer industry is fiercely competitive. In Houston, a downturn in the local oil and gas business resulted in the shakeout of many companies like ours. Despite difficult business conditions, with our initial capitalization through the Guaranteed Loan Program, we were able to achieve about $500,000 of sales in our first year. We have only been in business for a year.

At this time we are starting our second year this month and we are pretty confident we will be able to achieve $1 million this second year.

Much of the competition for our business is actually controlled by large corporate chains, and being a small business, we have had a lot of obstacles.

Our approach to capturing our part of the market has been to offer quality products at a fair price and to provide above-average professional service.

The type of companies and type of accounts that we deal with are public utilities, the city, the State of Texas, oil and gas companies, and financial institutions. We also have a lot of business with the space center here locally.

Our company has four employees; we are not a very large company, but each of the employees who were new to the industry initially were able to develop marketable high-tech computer sales consultant skills that would be valuable both with our company and the future if they choose to move on to other companies.

We have been active in supporting the local community. Our company is the Boy Scout computer merit badge center for northwest Houston. We hold seminars for small and disadvantaged businesses in automating one's business.

Throughout the initial startup period we found out it was very difficult to obtain financing. We felt we had the right assets to secure financing, but unfortunately, we were turned down for financing at almost every major bank here in town.

We came across the Charter Bank organization and they introduced us to the Guaranteed Loan Program, at which time we were able to place an initial $130,000 SBA guaranteed loan to complement our startup requirements of $230,000.

We have passed the first year; as we go into the second year, our primary challenge at this time is to remain in business and it is our plan to draw on the resources that the SBA offers in terms of management and marketing consulting. And we are currently trying to qualify for the 8(a) program.

I can safely say that without the SBA Guaranteed Loan Program, we wouldn't be in business at all. And frankly, we are disturbed at any consideration to terminate that agency.

[Mr. Roach's prepared statement, with attachment, follows:]

PREPARED STATEMENT OF PAL A. ROACH, OWNER, SOFTWARE GALERIA, HOUSTON, TX

I would like to thank you for the opportunity to testify on behalf of the Small Business Administration and to express our appreciation for the assistance this agency has provided to our business, Software Galeria of Houston, TX.

By way of background, Software Galeria is a computer retailer that provides microcomputer software, hardware, supplies, and services to business, institutional, and corporate customers. Our product line includes the leading computer products on the market today such as IBM, AT&T, Epson, Apple, and others. Services offered cover technical support, product evaluation, seminars, and customer training. Software Galeria is a family-owned business structured as a proprietorship. Initial capitalization for our business was made possible through the assistance of the SBA guaranteed loan program.

The computer retail industry is fiercely competitive. In Houston the downturn in the local oil and gas industry has resulted in a shakeout of many companies in these past few years. Despite difficult business conditions Software Galeria was able to achieve almost $500,000 in gross sales its first year. This month as we begin our second year, we fully expect to top $1,000,000 on an annual basis. Although much of the computer retail market is controlled by large corporate chains, we were able to capture a share of the market by offering quality products at a fair price while still providing professional service. Our major accounts include; public utilities, the city of Houston, the State of Texas, oil and gas companies, financial institutions, NASA.

Companies such as ours play a strategic role in the U.S. economy. Like other businesses we employ people and pay taxes. However we are also at the leading edge of the high tech revolution. Software Galeria sells and implements products whose primary purpose is to make businesses and institutions more efficient, more productive, and thereby more competitive both at home and abroad.

Our company has four employees, each well regarded in the profession of computer sales consulting. Although new to the industry initially, our employees have developed valuable and readily marketable skills that will serve them well in the future. Especially in the present job market as thousands of high tech positions become available.

Software Galeria has a strong commitment to the local community. We volunteered our staff and facility to serve as the Boy Scout computer merit badge center for Northwest Houston. We host seminars for small/disadvantaged enterprises on how to automate one's business. We plan to continue our efforts at making a contribution to the community in which we do business in.

Although our business has gotten off to good start, it is our experience that in many ways the race to develop a successful business is unfair. As a small/disadvantaged business we must clear more and steeper hurdles to achieve the same result as our competition. For example prior to starting our company we were unable to secure financing from any major lender in Houston, despite having all the "right assets" for a new venture including 10 years of computer industry experience with a major corporation, significant cash equity and collateral, and formal management education from a leading university. Fortunately for Software Galeria, the SBA loan guarantee program was available to assist us in clearing a crucial hurdle—initial capitalization

Starting a business and staying in business are both difficult tasks. The SBA with its variety of consulting and support services can assist us with our immediate challenge of staying in business and we fully plan to draw on the SBA resources to this end. I can safely say that Software Galeria would not be in business today without the SBA guaranteed loan program. I am deeply disturbed by the current proposal to terminate the SBA as this would have a negative impact on small/disadvantaged businesses and the business community in general.

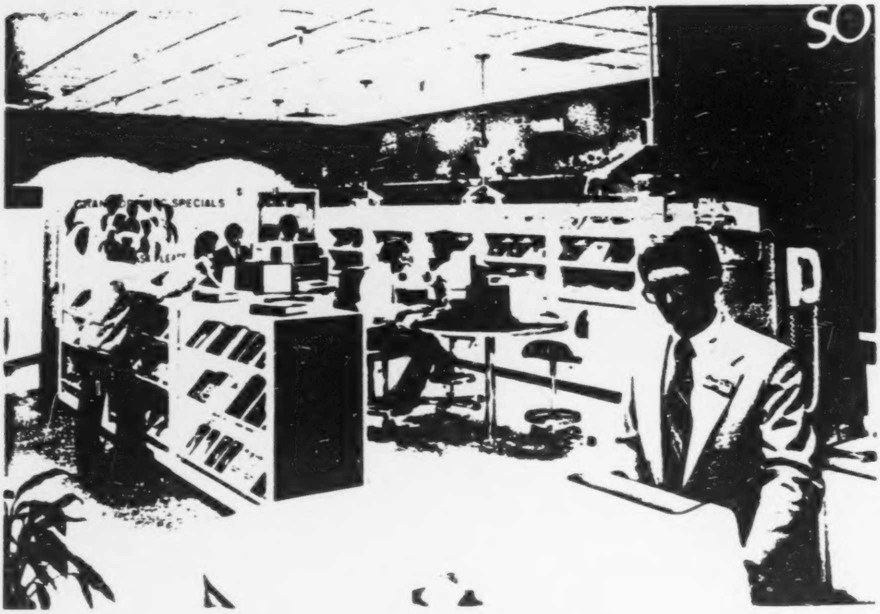
SOFTWARE GALERIA

FACT SHEET

LOCATION	The Corner Market 3331 F.M. 1960 West Houston, Texas 77068 (713) 580-6922
DESCRIPTION	Part of the nation's largest business software specialty chain. A full service company that provides computer software, peripherals, hardware and supplies for personal, business, and corporate computing environments. Services include technical support, software evaluation, monthly seminars, and end-user training.
SALES SERVICES	Software Galeria offers its clients the finest quality off-the-shelf software available, with a selection of over 2000 packages. These selections are detailed in the Software Galeria Catalogue, which is updated regularly by our headquarters in Santa Clara, California. Through extensive research and evaluation of business software, Software Galeria saves its clients the cost, time and risk of finding new products on their own. Free newsletters and monthly seminars keep its clients informed of the latest developments in microcomputer software. We also provide IBM compatible hardware to ensure reliability and support for the life of your system.
CONSULTING SERVICES	Software Galeria specializes in software for the business and corporate environment and provides its clients with unbiased product selections and recommendations. S.G. matches corporate needs with the appropriate software, not just the current best sellers. Technical support for all products is available from one source.

SOFTWARE CATALOGUE	The Software Galeria Software Catalogue is a reference manual and software selection guide for the microcomputer user and manager. The 31 page catalogue offers hundreds of products for microcomputers, concentrating on applications available for the IBM PC. Most product entries includes price, machine availability, system requirements and a full description of the main features and capabilities. As new products are released to the market, the information in the catalogue will be updated through seminars and newsletters. S.G. is prepared to recommend and support all the products in the catalogue.
NEW PRODUCT SEMINARS	Software Galeria sponsors a free monthly seminar series on the latest developments in business software. These seminars provide information on trends in the industry and give a forum for software publishers to introduce and demonstrate significant new products to business users. Demonstrations are followed by discussion periods, where corporate managers can directly question representatives from software publishing houses.
TRAINING AND TECHNICAL SUPPORT	Software Galeria trains clients on-site or at Software Galeria facilities. Basic technical support to ensure full operation of software packages sold by S.G. is provided free of charge.
CORPORATE PRICING	Software Galeria is the single source for software. By consolidating all microcomputer software purchases, maximum savings can be achieved through S.G.'s volume pricing on all products.

GRAND OPENING SPECIALS


GRAND OPENING SPECIALS
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Mr. MITCHELL. Thank you very much. I share your disturbance about any attempt to dismantle this program. That is why we are here.

Mr. Bonar and Mr. Emerson, I wanted to ask you a little bit about your employees. You say you have 36?

Mr. BONAR. No; we employ on an average of 55 to 65, sometimes as high as 70 people during the course of a year. Quite often we have these periods where business just dies for 2 or 3 months, and of course, we have layoffs.

Mr. MITCHELL. Right. And Mr. Emerson, you said if everything goes well, you expect to hire about how many people?

Mr. EMERSON. We have employed about 50 people.

Mr. MITCHELL. So we are talking roughly 100 jobs. Are these highly skilled people?

Mr. BONAR. They are a combination of everything in our factory. We have some chemists; we have manual laborers, and everything in between.

Mr. MITCHELL. The point I am trying to make is that without SBA's involvement with your companies—including yours with your four employees—it is possible we would have somewhere between 100 and 104 people not working or working only part time.

And that just seems so unreasonable to me when people know that the small businesses are the lifeblood for the employment of people. Large corporations don't need lots of people.

The rule of thumb, I think, says that for every small business we are assured of at least eight jobs, initially. And although the unemployment rate has gone down some, it is still astronomically high, and I just don't see the sense of jeopardizing the continuation or the initiation of new small businesses, jeopardizing the employment opportunities at a time when we need all the jobs we can get.

There is one other thing I wanted to ask you. Mr. Roach, do you do research of any sort?

Mr. ROACH. No; we do product consultation. We represent a line of computer products from major manufacturers, such as IBM and AT&T. We consult with our customers and our clientele as to which items in that line best suits their business requirements.

Mr. MITCHELL. I have a hunch your company is going to continue to grow; it is going to be a good one, and at some point you are probably going to move into research in the computer area.

We have moved a program through Congress—the innovation and research bill—which requires the Government agencies to set aside a certain small percentage of their research and development efforts for small businesses. So when you reach that point, bear in mind that there is that available to you.

Mr. Hayes, do you have questions?

Mr. HAYES. Yes; a comment, maybe. Mr. Roach, you were very clear. You wouldn't be in business—I think all of you said—if it wasn't for the help you got from SBA, but I think you went further. You stated that your demise could come very quickly if SBA goes out. Is that right?

Mr. ROACH. That is right.

Mr. HAYES. What about the other two of you? Could you survive without it?

Mr. **Bonar**. Today, I could. I might have been able to do it in the beginning; however, the time that I picked to do it was 1975 and that was a terrible year to borrow, and with all of the assets that we had as collateral, we still could not get a loan from one of the downtown banks.

And the SBA, of course, came through and helped us.

Mr. **Emerson**. I would like to make a comment to that. As far as our company is concerned, we could probably survive today if the program was killed or dismantled, but I would hate to see it dismantled, because it did come to our aid when we needed it, and we may need it again in the future. We don't know this.

So definitely we feel very strongly at our company that the SBA should be continued, especially the guaranteed part of it—definitely.

Mr. **Hayes**. I probably should have made this statement before the mayor pro tem left, but you know you are in a very important State among 50, which is very influential in the Federal political arena. In fact, the Vice President comes from this State.

Your positions and the support that you have received from SBA should not remain a secret to yourselves. You need to transmit the kind of support and feeling that you have displayed here and you have testified to, from your small corner to other parts of the State, particularly those in the political arena, because I don't think some of them understand it.

Thank you, Mr. Chairman.

Mr. **Bonar**. May I ask—what is the ultimate end to all of these hearings?

Mr. **Mitchell**. Our ultimate objective is to prevent the dismantling.

Mr. **Bonar**. I understand, but in what manner are you going to go forward with documents to Congress or——

Mr. **Mitchell**. Well, we already have legislation that has been introduced on the House side to preserve SBA as an independent agency.

After we conclude these hearings, the testimony will be given to all of the members of the Small Business Committee.

In several weeks we will have a hearing in Washington at which time Mr. Sanders, the Administrator of SBA, will testify, along with several other persons.

Following that, we then expect to mark up a bill in the Small Business Committee. It is my fervent hope that our bill will retain SBA and all of its programs. I am a political realist; we are going to have to cut back on funding in some of the programs. The problem of the deficit is enormous and we will have to reduce some.

I think that is a responsible position for us to take; however, I think it is totally irresponsible to call for the transfer of SBA functions. Once our bill is marked up, then the legislation will be taken to the floor. We will have votes on it on the floor. There will be some enemies to SBA there.

I think we can prevail. It is a long arduous process. When our bill passes in the House of Representatives, then there will be a conference to reconcile the differences between our bill and the Senate bill.

All things going well, all things being equal, we will be victorious in this scenario.

Mr. **Bonar**. Your suggestion that you could use some help is probably well placed.

Mr. **Mitchell**. Yes; that was Congressman Hayes' suggestion, and I would be remiss if I didn't say that the Members of the Senate and the House have been hearing from small businesspeople all over the country. We need to keep that going.

I know that they are writing, because sometimes they will send me copies of letters, saying that they sent it to Representative So-and-So. The flood of mail coming in has been 99 percent in support of SBA.

Gentlemen, thank you very much. Good luck in your businesses.

We would like next to hear from our second panel. We are ahead of schedule and not everyone is here. We will come back to them later on.

Thank you, Mr. Mayes for being here. You will have to carry the burden alone for this phase of our hearing, and if the other gentlemen get in later on, then we will get a chance to come back to them.

TESTIMONY OF THOMAS MAYES, WONDERLAND PRIVATE SCHOOL, HOUSTON, TX

Mr. **Mayes**. Thank you, Mr. Chairman and Mr. Hayes. I am delighted—and I am going to mostly paraphrase. I hope everyone has a copy.

I would like for you to feel my true feelings of how important it is that the SBA stay intact. I am very humble that you invited me here today to speak to you on this.

My first loan from the SBA, which I paid back in about 3 years—second, in 1975 in order to grow—I cannot grow without the SBA. It is impossible for me to do so.

In my business I have to figure how to maintain a profit and make it affordable for working people, mostly single parents to go to work. So I provide a very, very necessary business, and I employ 14 people.

I will seek another loan shortly in order to increase my staff and my occupancy. I must digress a bit and tell you that I remember the days when I first went in service during the Eisenhower administration, not even having a good feeling about my country or being a part of my country; however, I served.

Not until Mr. Kennedy did my country mean to me my country. And since Mr. Eisenhower and Mr. Nixon—in their years the SBA came about in their wisdom, I am sure if people would just sit and think just for a moment, you have had people for years—and there is a gentleman by the name of Mr. James Weldon Johnson that wrote the theme song for the NAACP—that is "Lift Every Voice and Sing;" we call it our black national anthem.

In that song he cited, "Stony the road we trod, bitter the chastening rod felt in the days when hope unborn had died." That is a profound statement and I fear that we will diminish our growth or our Nation if we allow the SBA to die or transfer it so it may die.

Can you imagine a people without hope? A person without hope will perish. My Bible tells me this. So since we know that it is necessary to give hope to people that had never had hope before, the SBA must maintain itself and must stay intact so that people like me can grow and continue to grow and build better minds for America tomorrow.

If we don't allow small businesses—and I consider myself an educator—to stay in business whereby that we may reach the most important of the formative years of children. And I call the most important of the formative years 3 through 8; that is the third grade. That is when their habits are cemented in—study habits and et cetera are cemented in; thereby if they do not form that habit at that early age, America will die, because we are not raising up people to believe in what the American dream is and which I learned late in life.

If I share with you something that is personal—I was 33 years of age before I knew a pair of shoes wasn't supposed to hurt your feet. Now, that is personal, but how long does it take a person to come from one point to another? It is what other people that is in positions must consider and must think about.

We have progressed, and we have come a long way, but we have a long way to go and we haven't arrived yet. I would like to think that I am offering something now to my country, and I thank Mr. Kennedy for coming on the scene.

And let me close by saying Mr. Bush, when he ran for the Senate seat that Mr. Bensen holds presently—he visited my school in 1970—and you will see a copy of the newspaper article on the last part of this thing [1]—and he talked about welfare reform and et cetera. I know Mr. Bush very well. I visit his home; he is a personal friend of mine.

I will write him a letter; I will talk directly to him, because I can't conceive the second man on the ladder not knowing the burdens and the problems of the people that they represent.

Unless we cease being we the people and they are the people that are leading us as we the people, then, I think he must let his feelings be felt. And if he feels like he felt in those years—and so I say, Mr. President, let's don't reflect back to Mr. James Weldon Johnson and let hope die and people before they are born.

Mr. President, let's build a better America tomorrow. Thank you.

[Mr. Mayes' prepared statement follows:]

PREPARED STATEMENT OF THOMAS MAYES, WONDERLAND PRIVATE SCHOOL, HOUSTON, TX

Good Morning Gentlemen and Ladies. I come before you as humble as I know how to be with gratification in my heart. It has been some time now since I've made a loan from the Small Business Administration. But before that, I knew I had to make it. Not until Mr. Kennedy came about, did I know that a part of the United States was mine, belongs to me, and all and each individual owed each other respect.

Let's take the word respect, for a moment if you will. When there are the haves and the haves not, and if because the haves respects the haves not the ones that have can make it possible for those that dare to dream, that dare to step out, that have the drive, the initiative to move forward. Allow them to.

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[1] Copy of newspaper article not legible for reproduction.

Mr. Kennedy in his great wisdom said a great number of things that made sense to me, that made me feel a part of my country, however, I say my country during the Eisenhower days, the Eisenhower administration, when the Armed Forces were integrated, and at that time, I was a man without hope. I don't know if you understand that. Therefore I am going to try very, very hard to help you understand. A man without hope. Since I am in the educational field, and since the Small Business Administration did give me the opportunity to dare to make this thing work, let me see if I can tell you something about the man without hope and see no way out. I would like for you to bear with me for a moment or two. If I can reflect on our forefathers, black people, most especially. There was a man that composed a song entitled, Lift Every Voice and Sing. It's a theme song for the NAACP.

We call it our black national anthem. In that song, it has very few words in it, that says; "Stoney the road we trod, bitter the chasening rod, felt in the days when hope and unborn had died, yet with a steady beat have not our weary feet come to the place for which our father's side." That song has a very significant meaning to a segment of our American people that came when we couldn't dream to hope that our chosen would become free.

Back in the fifties when I served this country, I had no hope at home, no direction to go, nor did I think I would be able to achieve any heights when one would make from $.76 cents to $1 an hour. This was the late forties and early fifties. Back then we thought $1 an hour was a great deal of money. But this was survival money that's all it was. In order that one may go to school, you would have to get out to work a double job, fulltime. There were quite a number of us like that out there. Was that the HOPE? No, sir. We dared to dream that possibly we could get an education and that might make a difference. We couldn't hope that it would. We could only think that if we got an education, it might make a difference. Can you imagine a people, a whole people without hope? My Bible tells me that a people without a hope will perish and if you dilute further than what it is diluted, the Small Business Administration, you eliminate hope for a great number of people that had not hoped for a great number of years. When they begin to hope I fear that we are about to diminish what has been given to some people, poor people. A chance to hope if they would work hard enough the hope would come true, and if their hope would come true their child or children would have a better hope. We then would have a hope in our children. We then say Jackie Robinson made it, Willie Mays made it, we say Mohammand Ali made it. Can you imagine how many athletes there are compared to the non-athletes? Can you imagine a person with a mind that can really dig and think, and really produce, that could come up with an idea that can make a mint? But we have not the place to go to sell it. If we go to sell the idea, it is taken from us, because we have not the moneys to make it work. Now this is done across the spectrum, white and black alike. All the white man would have to do is put on a suit, comb his hair, and do far better than a black man. Then if you take a fifth-segment of the Government from the people that would be the most devastating thing that could happen. I would hate to think what it would cause. A man without a hope, what could you expect of him, what direction would they go. I don't think that you can suggest of him, what direction would they go. I don't think that you can suggest that a man would go in a specific way. Therefore you must leave the Small Business Administration in tact and you must allow for it to work for black people. I agree with you, when I was made to do the 5-year projection, it helped me know the direction and organization of the business and it provided me with stability in planning. I had the drive, I had the stability, and I had the know how in order that this could work. But without the funds, it would have been impossible. You've given some people hope, the hope that James Weldon Johnson spoke of in his song of hope in the unborn and dead.

Mr. President, let us build a better America tomorrow.

Mr. MITCHELL. Thank you very much, Mr. Mayes. You have a private school. How many children attend your school?

Mr. MAYES. About 170 and I intend to increase it to 250.

Mr. MITCHELL. All right. And how many employees do you have at your school?

Mr. MAYES. Fourteen, presently. I plan to go through the 12th grade eventually.

Mr. MITCHELL. Now, am I right in assuming that you actually got started on this with an SBA loan?

Mr. MAYES. I actually got started with an SBA loan.

Mr. **Mitchell**. In what amount?

Mr. **Mayes**. The original loan was $13,000. I started off before I borrowed the money with $1,300.

Mr. **Mitchell**. And the $13,000 has been repaid.

Mr. **Mayes**. The $13,000 has been repaid. Since then I reborrowed.

Mr. **Mitchell**. In what amount?

Mr. **Mayes**. In 1975, $50,000.

Mr. **Mitchell**. What was that for?

Mr. **Mayes**. To increase.

Mr. **Mitchell**. Expansion.

Mr. **Mayes**. Expansion.

Mr. **Mitchell**. Is that loan up-to-date?

Mr. **Mayes**. Yes.

Mr. **Mitchell**. And then you plan—I think I heard you say you would probably consider another loan to continue to expand the parameters of your——

Mr. **Mayes**. I have purchased land at the present site. All I need to do is grow on it. That is all I need to do.

Mr. **Mitchell**. Again, I will just put the question very bluntly to you. Could you have done this without SBA help?

Mr. **Mayes**. I could not have done it without the SBA. In fact, I will go a step farther. Without the SBA and the leniency that I have experienced when my first and second year I had no more than 15 children whereby I had to work and make certain that I bring excess money in in order to pay the bills—the bills were slow then—and because I always earned the money to pay it back—I have worked sometimes 24 hours a day in order to do so—but the dream was there because the money was available for me from the SBA.

The $13,000 allowed me to expand even then from the number occupancy of 30 to 95. That gave me some stability. There are some people that can do more with little, because they will work harder with whatever they got. I like to think that I was taught to survive, and I did. I have, and I will, but SBA must be intact.

Mr. **Mitchell**. Thank you.

Congressman Hayes.

Mr. **Hayes**. I just have to comment that I can see that you are a tutor or a teacher as I look through your rather poetic philosophical prepared statement. God knows, I am glad to know that you are supportive of the survival of SBA.

There is just one thing. I see you run a private institution. Is that in competition with the public school system? Do you charge a tuition? In addition to the moneys you get through loans, what is the basis for your survival and growth?

Mr. **Mayes**. No other basis for survival, but through tuition, and that is the unique part. As I said in my prepared speech here, I must figure out how the working class of people can afford me and how I can make a profit.

So I figure to do that in numbers. So I increase in numbers.

Mr. **Hayes**. Most of your students must be from sort of influential families. Why would they choose your private school over the public school system? I am just a little curious.

Mr. **Mayes**. Very good. I designed the business in order that a parent—and I charge them not a dime extra—the parent comes in—I open up at 6:30 in the morning and I close at 6 p.m. in order that they may drop their child off and go to work whatever hours they need to work, leave work, come back, pick up their child, and go home.

I must tell you that we start teaching at 3 years of age.

Mr. **Hayes**. That is what I was after. You mentioned high school. You want to grow into that level, too, don't you.?

Mr. **Mayes**. Right. I start teaching at 3, though, where the Houston Independent School District teaches at 5. I divide it; I take in the word "kindergarten" the meaning of the kindergarten as readiness, and I made it a curriculum of its own—readiness one at 3, readiness two at 4. At 5 years of age I go to the kindergarten level and to make it meaningful, I go to the first grade and get preprimer. And I teach pre-primer at 5.

We teach the child to read, to count by 1's, 2's, 5's, 10's, 20's, through 200. And, praise God, we have computers now for the children. We are doing a fantastic job, we feel. We don't advertise. We turn away students because we do not have the space to take them in.

Because we give an expanded service that costs no extra—check anyplace else; they charge you extra after-school hours—I can't conceive a person working on a job 8 hours a day, sometimes 9, and having to have the first-, second-, or third-grade child picked or standing before school someplace.

So many different things that are happening in our world today—and my compassion for these things has led me to work these many hours, and I work from can to can't—if you can take that term. And I will work on Saturdays in order to get some of the things done that I couldn't do through the week; sometimes on Sundays, after church, I go and work.

It is important——

Mr. **Hayes**. All right. I don't have any further questions. In a closing comment, Mr. Mayes, you indicated you are going to be ready for a second loan pretty soon. Don't wait too long——

Mr. **Mayes**. I understand.

Mr. **Hayes** [continuing]. As the survival of the SBA is often important to people like you, and the kind of service you render is one that is very valuable. And I just want you to know that——

Mr. **Mayes**. I have the papers right now.

Mr. **Hayes**. All right.

Mr. **Mitchell**. Thank you very much, Mr. Mayes, and good luck with your school.

Mr. Lowrey and Mr. McNeill, would you come up, please?

Gentlemen, thank you very much for taking time from your businesses to be here. Perhaps you heard me say it earlier; I always feel so guilty about asking business persons to come to a hearing.

When you are running a business, you almost want to be there every second of the day; so I know it is a great sacrifice that you are here and we are most appreciative. We have copies of your statements. If you would like to give us the high points of your testimony we would be delighted to receive them. Either one.

TESTIMONY OF CHARLES McNEILL, PRESIDENT, LENOX BARBECUE AND CATERING, INC., HOUSTON, TX

Mr. McNeill. Mr. Chairman, Congressman, you have the papers in front of you. In 1977, the company that I am president of, Lenox Barbecue and Catering, Inc., was struck by a tornado and completely destroyed.

A few months before that, my father, who was the founder and owner died of a heart attack and we were unbeknowing that the ranch that we had built and he had spent so much money on was not covered by insurance.

It was during the course of renegotiating a loan at the bank to pay for the work that had been completed, which was destroyed, that my banker mentioned to me the disaster program of the SBA.

After applying for the loan and inspection of the area that was destroyed by an employee of the SBA, we were granted a $207,000, 20-year loan. We used a minority contractor in rebuilding. He had it up within 6 months after the destruction and the time that we were granted the money.

It is quite evident to us without the help of the SBA we would not have been able to rebuild that, and our loss would have been total, instead of temporary.

Mr. Mitchell. Thank you. I have some questions, but I would like to hear from both of you first.

STATEMENT OF MICHAEL LOWREY, PRESIDENT, WIN-WAY INDUSTRIES, INC., FREEPORT, TX

Mr. Lowrey. Chairman Mitchell, I am Mike Lowrey with Win-Way Industries, Inc., in Freeport, TX, and we are an industrial specialty subcontractor. Back in 1979 we experienced a couple of floods during the summer months. They were both classified as 500-year floods, which is unusual, I think, in anybody's lifetime, but these floods caused a large amount of damage on some of our insulating materials that were stored in preparation to go to a jobsite, and our material losses were in excess of $250,000.

And we utilized the SBA Disaster Loan Program in our area to help us through these tough times, and it provided us a 7-year loan at very favorable interest rate, and I feel like that it was instrumental in helping us maintain our momentum in getting us through the difficult times of the 1981–82 economic recession.

And I am not certain that we could have made it without the assistance of the SBA.

Mr. Mitchell. Does that conclude your testimony?

Mr. Lowrey. Yes, it does.

[Mr. Lowrey's prepared statement follows:]

Prepared Statement of Michael Lowrey, President, Win-Way Industries, Inc., Freeport, TX

My name is Michael Lowrey and I am the president of Win-Way Industries, Inc. of Freeport, TX.

We are specialty sub-contractors. We perform services in the areas of insulation, scaffolding, plastics, and painting.

Our company has been in business since 1962 and has enjoyed steady growth over the years of our existence.

In the summer of 1979, we experienced a significant flood in our area and a great deal of damage was done to our company property.

Approximately 60 days later we experienced another flood of the same, if not greater, magnitude.

At the time of these floods, we were in the process of doing a large insulation job in the Freeport area on a local refinery plant. We had recently received some large orders from our material manufacturers and we were in the process of preparing the material for shipment to our field location.

The approximate value of this material inventory was $260,000. After the flood, the material had to be destroyed because of water damage. We had to fulfill our lump sum contract obligations so we had to re-purchase the material to complete the job. The financial impact of the material losses on this job was considerable. We incurred heavy expenses in related clean up labor, equipment, and warehouse rental on the damaged materials.

We were aware the SBA was in the area helping with applications for disaster loans and we made application for help. It took about 2 months to complete the necessary paper work and we submitted our application for a disaster loan in November 1979.

We received notification in April 1980 that our application had been approved and the loan would be made. The terms of the SBA note was 7 years at 7.375 percent. Our other long term debt during this period ranged from 10 percent to 17.5 percent. The SBA loan and the very favorable terms provided our company a helping hand, not a hand-out, when we needed it the most.

In my opinion, the SBA extended to our company a very worthwhile service in our time of need. We were provided working capital which stabilized our financial problems, and in return, we paid back interest, continued to provide steady employment in our area, paid income taxes, payroll taxes, and remained active in civic projects in our community.

I do not agree with those who believe the SBA should be abolished. I do feel it should be examined closely with significant effort toward cost efficient operation's and a possible spending freeze.

Mr. MITCHELL. Thank you very much. As you may or may not know, since I have been in the Congress—and I have been there ever since 1971—every year when the SBA authorization comes up, there is an attempt made to end the Disaster Loan Program.

We have had to fight this year after year after year. One of our chief arguments in defense of the Disaster Loan Program is that those who oppose it don't understand the ripple effect when a business is hit by a disaster.

It is not just that business. If it is a very small community maybe the total of that community is impacted one way or another. At one point—and I will ask counsel on this—wasn't there an earlier move by the OMB to eliminate all Disaster Loan Programs?

Mr. POWERS. That is right.

Mr. MITCHELL. We fought against that. That would just be unconscionable for a man like your daddy, who didn't know that he was not covered by insurance—there was no way in the world that he could have predicted that natural disaster was going to take place.

I just think this country owes something to the small business community to protect them against disasters.

Your testimony is being most helpful in that regard. And I assure you that you have some real good friends on our committee who are going to battle tooth and nail to save the Disaster Loan Program.

Some attempt has been made—and again, counsel can correct me if I am wrong—to try to move all of this over into the Department of Agriculture at one time?

Mr. POWERS. There was some discussion of that.

Mr. MITCHELL. Right. And to move this into agriculture—they don't know a thing about your business. God knows, I don't want to move anything into HUD right now, because that is a disaster in and of itself.

And I just think we have got to keep this Disaster Loan Program here with us so that our small businesses can be protected.

Now, I just wanted to ask you one question, Mr. Lowrey. What was the length of time on your loan?

Mr. LOWREY. It was a 7-year loan.

Mr. MITCHELL. It was made when?

Mr. LOWREY. We received the majority of the funds in the second quarter of 1980.

Mr. MITCHELL. OK. And you were able to keep up with the payments and all?

Mr. LOWREY. Yes, sir; as a matter of fact, the loan will be paid off in a couple of years now.

Mr. MITCHELL. Ahead of time?

Mr. LOWREY. Well, not ahead of time, but right on schedule.

Mr. MITCHELL. And yours is a 20-year loan?

Mr. MCNEILL. Yes, sir.

Mr. MITCHELL. Is the business going well enough for you to keep the payments up?

Mr. MCNEILL. I haven't missed one.

Mr. MITCHELL. I just stay calm, but it makes me so mad that those nincompoops who are proposing the end of this kind of effort don't know about the good that is being done. They just say, well, we have got to do this in order to cut down Federal spending.

Well, I want to cut Federal spending, too, but not at the price of programs that undergird, support, and protect our small businesses.

Congressman Hayes.

Mr. HAYES. At the risk of being ruled out of order by you, Mr. Chairman, I just have to digress a little bit. I was a recipient of some very fine barbecue that was catered from the State of Texas to the House when they have their annual Texas reception. And I was just wondering if Mr. McNeill might have had something to do with that. I have been wondering if I could find the source of that barbecue.

Mr. MCNEILL. Well, possibly. We have been fortunate enough to send our food overseas to London. We have sent it to Las Vegas and New York. We have shipped it all over the world.

Mr. HAYES. They said it came in by plane.

Mr. MCNEILL. We have——

Mr. HAYES. No questions. I will talk to him later.

Mr. MITCHELL. Thank you, gentlemen. Thank you both very much.

We really want to focus now on the minority contracting program, but I understand Mr. Acosta is here, who benefited from the Guaranteed Loan Program also. So why don't we have Mr. Acosta, Mr. Jose Fernandez from Fernandez Technology, Inc.; and Mr. William Yarbro from W de Y Associates, Inc.—all three of you come up.

Why don't we start with Mr. Yarbro, Mr. Fernandez, and then we will go back to Mr. Acosta. I think we have a copy of your statement, Mr. Yarbro.

Gentlemen, thank all of you for being here. We really appreciate it.

TESTIMONY OF WILLIAM E. YARBRO, PRESIDENT, W de Y ASSOCIATES, INC., HOUSTON, TX

Mr. YARBRO. If you will permit, I would like to read my statement.

Mr. MITCHELL. All right. Go right ahead. It would be more helpful if you could—rather than read it in its entirety, because it is going to be printed in the record in its entirety—if you could just give us the high points from your statement.

Mr. YARBRO. I am William E. Yarbro, president of W de Y Associates, Inc., an 8(a) company which was certified by the Houston district office of the Small Business Administration in 1981.

We are currently operating under FPPT, which is the fixed program participation term, which expires in April 1986 and we have requested a 3-year extension, feeling that we have not had ample time to effect viability.

Our progress to date, we think, has been commendable. In fact, the Houston district office of SBA awarded our company the 8(a) contractor of the year award for 1984.

Mr. MITCHELL. Congratulations.

Mr. YARBRO. W de Y Associates is one of the few high-tech companies operating in the Houston market. The bulk of our business is currently with the NASA LBJ Space Center. I have personally been active with aerospace development, commencing in 1960 with the Gemini project, followed by the Apollo project, the LEM project, and in a former business of which I was a partner, we were a major subcontractor to the International Business Machines Corp. here in Houston for a period of about 5 years, supporting them in the space shuttle development.

W de Y supports NASA in three areas of its operations. Our firm's markets include information systems design and development, aerospace research and development, and we recently entered the telecommunications consulting market. My statement covers my basic feelings in reference to the support that we have received from the Small Business Administration.

Like the committee, I would like to see the SBA continue. Like the committee, I think SBA has served small and disadvantaged business effectively. The critics of SBA's Direct Loan Program and, of course, its other programs, are attempting to mislead the public with regard to what can be accomplished by abolishing SBA. We hear that certain of what they call minor programs of which I am a part—the 8(a) Program—could be transferred to the Department of Commerce under the MBDA.

I think it is subterfuge, really, for winding down SBA in total, not only its direct loan programs. Minority companies such as mine, and others in our community have benefited by SBA's assistance in establishing effective banking relationships with the various banks, which I think you all realize has been extremely difficult.

I would like to bring to your attention a situation that is currently existing here in Houston at the NASA LBJ Space Center. There are currently underway two major consolidations. One is called FEPC, which stands for flight equipment processing contract, and the other is STSOC, which is the space stations operations contract.

Now, under STSOC NASA is consolidating 22 autonomous contracts into 1, and in the instance of FEPC, they are consolidating 16 existing contracts into 1.

There are certain of large companies that have qualified as potential bidders on either or both of these two contracts. They have, of course, teamed with each other in reference to a bid. W de Y is currently performing a portion of this work and has requested on numerous occasions to be included as a team member and all our requests were met with a negative response.

We have additionally tried to get them, in accordance with Public Law 95-507, to effect meaningful subcontracting arrangements. This, again, has not been possible. In fact, what we are being told is to wait to see what comes out.

In other words, once the bid has been decided, then they would be in a position to discuss possibilities for a subcontract; however to be active over the long term in the high tech market, you have to be active on the front end where the planning is done, where the strategic approaches to the project is done, where for instance, the partitioning of the total is done.

If we are not there at the beginning, we are not going to be there at the end. We will effectively be closed out of the process; therefore, I am very supportive of the Small Business Administration and I hope that this committee with its efforts can derail this engine of destruction which is on the move in Washington, DC, in reference to the abolishment of SBA.

Those are my comments.

[Mr. Yarbro's prepared statement follows:]

PREPARED STATEMENT OF WILLIAM E. YARBRO, PRESIDENT, W DE Y ASSOCIATES, INC., HOUSTON, TX

Mr. Chairman, I appreciate the opportunity of appearing before the House Small Business Committee this afternoon to present minority views, comments, and recommendations concerning the issues involving the proposed abolishment of the Small Business Administration (SBA).

At the outset, I want to commend the Small Business Committee and its Chairman for the study and investigation of the President's request that Congress enact legislation which would abolish the SBA and eliminate many of the assistance programs which are vitally important to the minority community. I'd also like to commend the Committee for the ongoing series of hearings which you've held to determine the scope and nature of compliance with the subcontracting program for small and small disadvantaged businesses.

I testify with great interest, because I feel that the subject with which we are dealing this afternoon is probably the most important to me and others in the minority community, but also the most difficult, that has ever risen upon the horizon during the 15 to 17 years SBA and its programs have existed. The subject is surrounded by the most perplexing difficulties, and certainly I this afternoon have nothing dogmatic to say. At the same time I personally feel that SBA, the only advocate for small and small disadvantaged businesses, has made progress and that the subject is no longer merely academic, no longer merely utopian. If the SBA has done nothing more, it has done this - it has stamped in the hearts of millions of men and women, as no other federal agency has, an intense hope that there can be a better order of things for them. And you see the result in a hearing such as the one this afternoon, where you have not only gathered the dreamers, the idealists, and the visionaries, but also practical men and women who've benefited greatly by the SBA and its programs.

The potential losses and sufferings of the decision to abolish SBA truly defies description; I cannot contemplate without the profoundest emotion the disappointment which could come from this decision. After all of our efforts, all of our accomplishments, and all the fine enthusiasm of the minority community, this is what the administration considers justified.

Like you, I favor the continuation of the SBA. Like you, I feel that SBA has and continues to serve a useful purpose. Like you, I want the decision to fail so that minority business persons in every instance will have SBA as our advocate, and that we the minority communities will receive the benefits we so rightfully deserve.

As a full-service management consulting firm, W de Y offers a complete range of management services including management consulting, technical support services, computer systems design and development, computer facilities management, aerospace systems research, and telecommunications consulting. Our management consulting services include basic decision making, planning, and programming in those phases of the management process concerned with overall and functional management direction and control of activities. Presently, the firm has 40 regular employees and several part-time and technical services advisors. About one third are professional and technical. Some of them hold advance degrees. Their fields of specialization include: engineering, education, mathematics, computer science, accounting, and business administration. About twenty-seven hold DISCO clearances at the SECRET level.

W de Y was certified under the 8(a) program in 1981 and currently holds a FPPT (Fixed Program Participation Term) which expires April 7, 1986. We've requested, an extension of three (3) additional years in the program. W de Y's management and performance, its on-time within budget delivery of services, and its general program of excellence resulted in the firm receiving last year the 8(a) Contractor of the Year Award from The Houston District Office. The company is also certified by the city of Houston under the city's MBE/WBE program. W de Y owes most of its success to the wisdom of Congress to provide a comprehensive program, administered by the SBA, that provides, as a minimum, support which has created a great involvement by W de Y and other socially and economically disadvantage, small business concerns in Federal procurement. The contract opportunities which W de Y has had from the National Aeronautics and Space Administration (NASA) L.B.J. Space Center, Houston, Texas, can be attributed to SBA's loans and other financial assistance, contracting assistance, assistance in establishing workable banking relations, its counseling resources, and of course, its general business support.

To abolish SBA would be the most criminal disregard of the recognition that minorities and other disadvantaged individuals have historically had a lack of and continue to need access to the resources provided by the Government to develop their businesses. Our twentieth century developments taught us how to mobilize the forces of progress for a few, but it did not strengthen our social conscience correspondingly, and the result is that present forces within the country have been collected into a horrible engine of destruction which now moves like the cursed thing it is, like some blind destiny which is treading over our hopes. We know that this decision is not the work of progressive thinkers. The decision to abolish SBA is contrived. It is members of the majority business community that are at the basis of it, business greed, business short sightedness and ambition; they are all at the basis of this potential calamity.

At a time when socially disadvantaged businesses are getting a smaller share of federal contracts money, some business groups have recommended that the programs which loans money directly to disadvantaged, fledgling entrepreneurs, should be ended because of alleged limited success and high default rates.

The decline in the share of contracts to minority owned firms is part of a larger pattern in which the U.S. Government is giving more work to larger companies. Large businesses account for 1% of all U.S. companies, but they are getting 84% of the prime contract money. At NASA-JSC, there is currently underway two planned consolidations which will, for all intent and purposes, wipe out the existing 8(a) firms performing on contracts at the Center. There is virtually no teaming with 8(a) firms and of course, there is little or no interest, it appears, in effecting meaningful subcontracting arrangements in accordance with Public Law 95-507. Without the SBA, W de Y, as would other 8(a)s, would be powerless to respond to such actions as these.

If there is to be an SBA for the future, then there must be created as a basis for it all, a strong, healthy, sound public opinion, a public opinion which will be the best guarantee of a small disadvantage business advocate (SBA), which will see that the Government continues to reinforce minority capitalism.

I must honestly confess that all the schemes and arguments that I have heard of so far for abolishing the SBA, have failed to carry conviction to my mind that they are practical and that they will achieve the objectives intended. Mr. Stockman argues that killing off the SBA, selling its loan portfolio and transferring some minor operations to other agencies would save the government $5.3 billion over the next three years. Considering the fact that SBA, in Mr. Stockman's words "serves almost no rigorously defined public policy purposes", that sounds like a savings well worth making in this age of federal budget stress. In other words, to destroy the agency which fosters entrepreneurship, the heart and sole of the U.S. economy, is now according to Mr. Stockman, justified.

Finally, I recommend that Congress appoint a Review Board to evaluate the President's request to enact legislation which would abolish the Small Business Administration and make recommendations.

The Board should study the effect of this decision and report to Congress how such a decision would delay the current objective of achieving parity in our economic system for socially disadvantaged individuals and businesses.

Congress should consider the recommendations of the Reveiw Board as soon as it reports with a view to implementing, as quickly as possible, recommendations it considers appropriate and helpful. Obviously, there is a need to rectify past mistakes made by SBA. However, to terminate the SBA because of past mistakes would be at variance with the intent and purpose of Congress.

We believe that the objectives of the SBA and its programs are sound and we want it to develop new policies and procedures that are as sound as the objectives.

Thank you for this opportunity to testify before this Committee and I will be pleased to answer any questions you may have.

Mr. **Mitchell**. Thank you very much for your excellent testimony, Mr. Yarbro. I have a number of questions but I would like to hear from the other witnesses before we go into questions.

TESTIMONY OF JOSE FERNANDEZ, PRESIDENT, FERNANDEZ TECHNOLOGY, INC., PASADENA, TX

Mr. **Fernandez**. Mr. Mitchell, Mr. Hayes, similar to Mr. Yarbro, my company is primarily an engineering company, and we are performing, currently, contracts for the Air Force and for NASA and for various cities and private industry around this area.

We do engineering design analyses for these various programs. We are an 8(a) contractor. We were competitive when we initiated our company in 1976. We went 8(a) in 1978 and we are still 8(a), and hopefully, in a short time we will get out of the 8(a) Program and go competitive again.

The SBA has been instrumental in the past 7 years or so in helping us identify new customers and seek new work and so forth. And we think the function provided by the SBA is something that most small businesses need. And so in that light we hope that the SBA functions will continue.

That is it.

[Mr. Fernandez' prepared statement follows:]

Prepared Statement of Jose Fernandez, President, Fernandez Technology, Inc., Pasadena, TX

1. Fernandez Technology, Inc. started business in January 1977 as Fernandez Engineering Services, a consulting engineering firm for aerospace systems and special facilities design. The business was started as a competitive non-SBA sponsored business seeking competitive contract opportunities at NASA-JSC and other private and governmental organizations. The business was slow in starting, but was successful.

2. Mr. Fernandez has 25 years aerospace experience as a research and development engineer and project engineer, and 10 years experience as a manager of aerospace research and development/advanced design projects involving a maximum of 65 engineering and technical professionals.

3. During the 1977-1978 period Mr. Fernandez was successful in developing a potential competitive contract opportunity at NASA-JSC. The contract opportunity was in an area that Mr. Fernandez had been involved in managing support for the previous 10 years. However, in July 1978 the NASA and the SBA decided to make the contract opportunity an 8(a) set-aside. At that time the SBA contacted Fernandez Engineering Services requesting it join the SBA 8(a) program. Fernandez Engineering Services agreed and provided the necessary information for 8(a) certification in August 1978. The SBA later (January 1979) directed the contract to a minority contractor with no previous experience.

4. I feel the emphasis of the SBA program should be to develop competitive Small Business contract opportunities for unbiased competition between the 8(a) contractors. Directed contracts to 8(a) companies are acceptable only if company meets the "competitive qualifications requirements relative" to the other participating 8(a) companies.

5. I feel all 8(a) qualified companies should "graduate" from 8(a) status as soon as a viable base has been established or not later that 6 years in the 8(a) program. Company "growth" is not/should not be an 8(a) objective.

6. The SBA should also assure itself that the "customer" agency participating in the 8(a) program identifies projects/contract opportunities that are or will be future (5 to 6 years) competitive Small Business set-asides.

7. The SBA Loan guarantee program has created a reluctance on the part of banking institutions to provide loans to small businesses without an SBA loan guarantee. Example: Fernandez Engineering Services obtained a $30,000, 7 year loan by pledging 50% collateral against the loan with an SBA guarantee on the remaining 50%. The bank retained both the collateral and the guarantee until the loan was totally repaid (on time). Fernandez Engineering Services had requested the bank to

provide the loan previously with approximately 60% collateral—which I feel should be adequate for any loan of that amount. Additionally, Fernandez Engineering Services requested the bank provide short term credit to meet the business cash-flow requirements which the bank refused to do. This was after the original loan balance was below 50% and the bank had the original collateral and the SBA guarantee.

8. Fernandez Technology, Inc. has throughout its participation in the 8(a) Program, sought, won and implemented competitive contracts in the private and governmental sectors of business and is planning to graduate from the 8(a) program in the near future.

9. I believe there is a need for a Small Business function within the Federal System. It is the responsibility of the Federal System to determine how to organize the function and how to "measure the cost effectiveness" of the function to meet our national long range goals. The objective should not be a "guarantee" for staying in business.

Mr. MITCHELL. Thank you, sir. Mr. Acosta.

TESTIMONY OF RAFAEL ACOSTA, CHIEF EXECUTIVE OFFICER, MERIDA RESTAURANT, HOUSTON, TX

Mr. ACOSTA. My name is Rafael Acosta, and I am the chief executive officer of Merida, Inc., a food retail business here in Houston.

My company, the company which I represent, now grosses over $2 million per year in the food business. In 1976, the company was formed and through the assistance of a small business loan through the SBA, we were able to acquire a $110,000 loan for a new restaurant in the Clear Lake area, called Merida Restaurant. It is a Mexican food restaurant.

It was $110,000, payable back in 15 years. The loan has been paid back. We would have not been able to acquire that new restaurant in a shopping center had it not been for SBA. We had a very hard time through the finances trying to get any bank to approve our loans.

The only way we were able to do that was to get the Small Business Administration guarantee—I think it is the 80-percent guarantee. That restaurant was a very good success for us.

In 1979 we acquired another SBA loan, a $60,000 loan for another restaurant in an Hispanic neighborhood in the close to downtown area, on Fulton. That was a $65,000 [sic] loan, payable back in 5 years. Also SBA guaranteed that loan. It has been paid back to the Small Business Administration.

We now currently have three restaurants in the Houston area. Last year we were named small business of the year for the district of the Small Business Administration here. We currently built a new restaurant in the NASA location.

This project's total cost was approximately $750,000. We were able to acquire $500,000 financing with a Small Business Administration-guaranteed, payable back in 15 years.

All three restaurants were critical in the sense that had it not been for the Small Business Administration guarantees, then the banking industry would have been doubtful that we would have acquired the loans.

Now we have three restaurants and doing well. We have one big loan, which is the $500,000 loan, and we have been current in that, sir.

Thank you.

Mr. MITCHELL. You keep up that kind of success and McDonald's better watch out.

Let me ask you a question, if I may, and I have some questions for everyone. Those who oppose the Guaranteed Loan Program try to tell us that banks are sensible enough to recognize a good track record and a good business plan.

Now, in 1976 you couldn't get any banks to cooperate with you.

Mr. ACOSTA. Yes.

Mr. MITCHELL. OK. You got a $100,000 loan and you have done very well. Between 1976 and 1979, you established a good track record.

Mr. ACOSTA. Right.

Mr. MITCHELL. In 1979 when you wanted an additional $65,000, did you go to the banks first?

Mr. ACOSTA. Yes, sir. We went through the bank in the NASA community to see if we could acquire a loan for a new restaurant in another neighborhood, in an Hispanic neighborhood.

They OK'd the loan conditionally if the Small Business Administration would guarantee it.

Mr. MITCHELL. OK. But without that guarantee, despite the fact that you had set a track record from 1976 to 1979, a successful track record, they would not have let you borrow the money?

Mr. ACOSTA. No, sir.

Mr. MITCHELL. And you went to only that one bank.

Mr. ACOSTA. Well, we bank with three banks now. We had gone to one bank in the Hispanic neighborhood; it was called Heights State Bank at the time. They deemed that the area was not the proper area to establish an Hispanic restaurant in that area.

So we went to the NASA area bank and they allowed us the loan only with the Small Business Administration's guarantee.

Mr. MITCHELL. Let me jump over to you, Mr. Yarbro. I want to make two comments on your testimony. First of all, I hope that you will get the extension above and beyond your 1986 date.

Mr. YARBRO. Thank you.

Mr. MITCHELL. But I wanted to reecho your statements about putting SBA's functions over in Commerce. I said earlier—perhaps before you came in—that is the way to bury the patient.

You transfer him from the hospital over to a nursing home and let him die there. It just strikes me as being incredulous. Here is the Commerce Department wrestling with an enormous balance of trade deficit, trade agreements all over the country and with enormous macroeconomic problems.

I don't see how anybody would think that outfit is going to focus in on small business. It never has and it never will, in my opinion.

The other comment that I wanted to make was on the consolidation of contracts. I hope that you will write to me about that. That is an increasing problem. Perhaps it is more beneficial to consolidate contracts. I don't know, but if that is going to happen, then we have to have some guarantees up front about small business participation in these consolidated contracts.

As you may well know, at one point the military started talking about total base management on military installations, where one company is responsible for the food, the cleanup, and anything that is required to run a base.

I don't think that is especially cost-effective, but obviously your company could not bid on a total base management concept. You are not that big. And I find a problem with consolidation of contracts. I find problems with total base management concept, because only the biggest of our corporations can afford to do this.

Maybe we can't stop that tide, but if you will write me on this one, I think we will begin our business of trying to make sure that these problems are addressed in the beginning, not in the end, because there is no guarantee when one set contract is let that there will be participation for us.

Mr. YARPRO. I agree with your comments. It is very discouraging to realize the major companies which only represent 1 percent of all U.S. companies, get on the average about 84 percent of all the Federal dollars. And I agree with you that no one has proven yet that consolidation offers the benefits anticipated by total base management. This is reflected by the recent consolidation at KSC [Kennedy Space Center], called the SPC shuttle processing contract.

They are having the same difficulties that you refer to in regards to a decentralized approach. I think that it is cardinal, when you have effective companies operating at a Government facility, that those companies are not given an opportunity to be included in the consolidation effort either directly as part of a teaming effort or indirectly by establishing effective subcontracting arrangements.

I have expressed my concerns to the officials at NASA and Small Business Administration, and feel we need to have the Government administer its own programs, not to have the primes of DOD and NASA administer Public Law 95-507 and the other programs which were provided to us by Congress to effect participation.

We have to go to these primes hat-in-hand and beg for participation. I do not believe this was the intent of Congress in passing Public Law 95-507.

Mr. MITCHELL. Mr. Fernandez, how many employees do you have?

Mr. FERNANDEZ. We have six employees.

Mr. MITCHELL. Do you have any expansion plans?

Mr. FERNANDEZ. Yes, sir; we are currently working contracts that have the possibility of expansion. It is dependent upon the customers' budgets and so forth over the next 2 years or so.

We are in somewhat of a dilemma at the present time in that the areas that we are performing in under the 8[a] Program are envisioned, possibly, for expansion, but not in the competitive marketplace.

And we believe that eventually we will have to go competitive, and that opportunity is coming in the near future, both locally, with NASA, and with the Air Force installation; so if the focus of small business is to make small businesses competitive, then we are on the right track.

Our customers look at small business and 8[a] Programs as an opportunity to avoid, let's say, a lot of competition. So some of the programs that are opportunities for competitive small business are not in that category. You can't have two things at the same time. You need to help some companies get started, but the customer also needs to realize that that company that it helped get started has to have a competitive opportunity in the future. And that seems to be a shortfall in most of these types of opportunities.

Mr. **Mitchell**. I am well aware of that problem. I don't know whether you know or not the various measures that have been instituted to make small companies benefit from the Small Business Administration move into the competitive area; for example, their fixed program participation term is obviously designed to nurture a business and then at a proper time to let it go out and become competitive.

I have no quarrel with that concept, except it is so difficult to determine when a company is competitive.

It might be 20 years before a company is really competitive; it might be 6.

Mr. **Yarbro**. Certain studies have supported that.

Mr. **Mitchell**. That is right.

Congressman Hayes.

Mr. **Hayes**. I want to say, first of all, that I have benefited from the testimony, as you have, and I look forward to receipt of the written copies of the testimony that the two witnesses promised to give.

I just want to comment, Mr. Yarbro, on your testimony. Frankly, as part of the learning process as a new Member of Congress, I just didn't know that a black was that close to NASA. I am just being honest with you. I found out that you are there, and certainly that phrase that you use, of trying to derail the engine of destruction of the SBA programs is what we are all about here.

I hope that you transmit your feeling to some people in both Houses of Congress, irrespective of partisan politics, and give them the benefit of the kind of struggle that you have had and the help that SBA has been to you.

Could you survive in this field of high technology without some Federal help?

Mr. **Yarbro**. Not at all.

Mr. **Hayes**. No further questions.

Mr. **Mitchell**. Gentlemen, thank you very, very much. Is Mr. John Henderson here?

[No response.]

Mr. **Mitchell**. Mr. Manuel Salinas or Mr. E.E. Briscoe.

Mr. **Salinas**. Manuel Salinas.

Mr. **Mitchell**. Mr. Salinas, would you come up, please? Please take a seat.

Thank you, Mr. Salinas. I hope we are just about on time for you. We have called your name earlier. We have a copy of your statement. You understand that these hearings are being conducted to try to ascertain what public feelings are with reference to the proposal that the Small Business Administration be dismantled and one or two of its programs transferred over to the Department of Commerce.

We would like to hear your statement. It is a relatively brief statement. If you want to just read it to us, fine. If not, you can speak to the highlights.

TESTIMONY OF MANUEL A. SALINAS, MASCO MECHANICAL CONTRACTORS, INC., HOUSTON, TX

Mr. SALINAS. Well, basically when I was asked to come over and testify, there is not much I can say, other than the fact that we do have an SBA loan and I feel like we have succeeded with it.

My statement explained how we got started. We are an air-conditioning business; we are contractors, first of all.

We were started under a very similar program to what the SBA functions under. It was a private program at that point. It worked; it is a good program, because it provides a source of financing and it gives hope to people—the ability to go out and find money to start a business.

It has been good for us. I don't know what else I can say. I am here to answer questions if you have any.

[Mr. Salinas' prepared statement follows:]

Prepared Statement of Manuel A. Salinas, Masco Mechanical Contractors, Inc., Houston, TX

MASCO Mechanical Contractors, Inc. is a heating, ventilating and air-conditioning contracting firm doing both service and installation of system. MASCO was incorporated in February, 1967 in the State of Delaware with a permit to do business in Texas. I, Manuel A. Salinas, own 100% of the stock.

We originally were founded by a loan guarantee program set up by The Trane Co., an air-conditioning equipment manufacturer headquartered in LaCrosse, WI. Trane's intention was to set up a nationwide dealer organization which would promote and sell their products to the public. We and Trane went to a local bank, Texas Commerce, and established a working capital revolving line of credit with Trane guaranteeing payment should we default on the note. There was no payback schedule required, the only stipulations being that:

(1) The loan amount would not exceed the amount guaranteed

(2) There was a five (5) year limit on the guarantee. At such time the bank could call the note or continue based only on our strength.

The concept and idea were and still are good but the program was not very successful and has now been discontinued. Out of seven dealers started in the Houston Metropolitan Area only two (2) of us survived and are still in business.

Currently MASCO does approximately $2,000,000.00 yearly and has 24 employees with a payroll in excess of $500,000.00.

In 1974, I decided that we had outgrown our facilities, which we were renting, and felt that we needed to expand in order to continue to grow. The S.B.A. provided us with a direct government loan to purchase a building and land giving us the working space we needed. This allowed us to seek larger and more profitable projects.

I feel that had it not been for the financial assistance provided to us by the Trane Co. and again in 1974 by the S.B.A. we would not be where we are now. These type of programs give the hope and provide the opportunity for a small businessman to start new ventures that become successful, providing employment opportunities for many people.

Mr. MITCHELL. All right. Now, you got a direct loan from SBA in 1974?

Mr. SALINAS. Approximately. Yes. I am not sure of the exact date, but I think it was 1974.

Mr. MITCHELL. Around that time.

Mr. SALINAS. Yes.

Mr. MITCHELL. And that was for expansion.

Mr. SALINAS. Yes.

Mr. MITCHELL. All right. What was the amount of that loan?

Mr. SALINAS. $80,000.

Mr. MITCHELL. Before requesting that direct loan, did you try to get the $80,000 through some of the traditional lending institutions here in the area—through the banks?

Mr. SALINAS. I did. Yes.

Mr. MITCHELL. What was your experience with the banks?

Mr. SALINAS. I was having a very hard time getting a commitment from anybody.

Mr. MITCHELL. But you had been in business since 1967?

Mr. SALINAS. Yes.

Mr. MITCHELL. Which meant that you would have established a track record for business and apparently a good track record, because you had survived.

Mr. SALINAS. Correct.

Mr. MITCHELL. And yet the banks would not lend you the $80,000 that you needed for expansion.

Mr. SALINAS. They wouldn't lend us the money for that type of application. We did have some other loans with the bank at that point, but they were strictly accounts receivable financing.

Mr. MITCHELL. All right, sir. Now, the loan that was made in approximately 1974—what is the status of that loan, the $80,000 loan?

Mr. SALINAS. Well, we are paying back $660 a month on it. I think it is down about $34,000, last time I looked in the book.

Mr. MITCHELL. That is great. You are current in all your payments?

Mr. SALINAS. Yes.

Mr. MITCHELL. How many employees do you have?

Mr. SALINAS. Currently we are down to 24.

Mr. MITCHELL. Before the expansion program how many employees did you have?

Mr. SALINAS. About 12.

Mr. MITCHELL. In other words—and I am putting this in kind of a rough fashion—because there was an $80,000 direct loan available to you, you have increased the number of your employees—you have doubled, really—the number of your employees?

Mr. SALINAS. Well, we had actually tripled them up until this year.

Mr. MITCHELL. That is fantastic. I don't think I have any more questions.

Those who argue against the Direct Loan Program argue that it has a high default rate. Well, my God, 2 years ago we had the highest bankruptcy rate for small businesses since 1932 to 1933.

And I get very angry with those who argue about the default rate being high under this program. Your payments are current and the benefits are that you have doubled or perhaps tripled the number of your employees.

I think you make out a very strong case for the Direct Loan Program.

Congressman Hayes.

Mr. HAYES. No questions.

Mr. MITCHELL. Thank you, sir.

Mr. SALINAS. Yes, sir.

Mr. MITCHELL. Good luck in your business.

Our next set of witnesses is scheduled to be here at 11 o'clock. We try to time the witnesses in timeframes. It is 10:40 a.m. Let's take a little 20-minute break. We will resume at 11 o'clock.

[Whereupon, a brief recess was taken.]

Mr. MITCHELL. Our next panel, panel No. 5, will focus on the Small Business Development Center Program. We have a total of five witnesses. We have testimony from all of you. We would like to receive your testimony individually. Then after all five witnesses have testified, then we would ask questions.

I will just start calling them off in the order in which they are listed on our agenda for today.

Ms. Jon Goodman, director of the Small Business Development Center, University of Houston, Houston, TX.

TESTIMONY OF JON GOODMAN, DIRECTOR, SMALL BUSINESS DEVELOPMENT CENTER, UNIVERSITY OF HOUSTON, HOUSTON, TX

Ms. GOODMAN. Mr. Chairman, as you know, my name is Jon Goodman. I am the director of the Gulf Coast Small Business Development Center. My office is located in the College of Business Administration at the University of Houston, University Park.

I appreciate this opportunity to testify. We began operations in Houston on November 12, 1984. We are one of the newest Small Business Development Centers in the United States, and one of the very few in which operations were begun in a major metropolitan area. As you well know, Houston is the fourth largest city in the country. This city is characterized by extraordinary urban sprawl. We entered a market noted by large numbers of businesses covering hundreds of square miles. And the community and private sector services were primarily aimed at established larger businesses. In a very short time, our counselors have established good working relationships with small businesses which will, over the long run, improve their performance and our expertise.

We have been extremely pleased by our results. Our primary consideration and our primary focus is grassroots economic development. We perceive our function as a provider of services to small businesses and through that to our community, our region, and our country.

The current economic condition in our region is not good. We are suffering from the results of a major shift in our industrial base. Houston's major interest industries are declining and their prognosis is poor. I know of no economist, including myself, or prognosticator who sees a revitalization of the petrochemical, refining, or heavy construction industries within the foreseeable future. In our boom years we concentrated our energies on those companies and industries which were creating the boom. It became inevitable over time that the fortune of those industries were our fortunes.

We had few reserves in our region to pick up the slack when the downturn came. You have only to visit our once-growing, shining industrial areas around the gulf to see evidence of this.

The Small Business Development Center in the gulf coast region, like its predecessors across the United States, can have a significant positive impact on the economy. By assisting in the growth and success of small business, we can generate the reserves and alternative industries that are so important to this area. We can, for example, assist a small business to prepare its business plan, its marketing plan, and its loan package. We then can help the company to get started, counsel and assist through the startup phase. With the right combination of people and ideas, that company will then hire workers, pay taxes, sell their goods competitively—improving other companies' cost position—and buy from other companies. We began, as I said, operations in November. We have already counseled over 175 businesses. We have arranged several loans, assisted companies in getting contracts or vendor arrangements, and seen those companies hire people, pay taxes, and buy from other companies.

Over the next several years our operations will return to the community the dollars that have been invested in it many times over. We will be the agent of economic development in our region that helps with others to diversify our economy and restore the strength of the small business community. We have not allocated any of our funds to advertising our program, preferring to spread the word through public relations and direct contact with the community. Even without advertising, we have exceeded our milestone goals in this last quarter by 306 percent.

We serve as many businesses as we possibly can, and would that we could serve more. Several of our companies we have assisted are here today. I will leave it to them to tell their stories. They are good representatives, but by no means the only success stories. They, I think, represent what good can be done by doing well.

Mr. MITCHELL. Thank you. We would like to hear from some of those persons.

Mr. Brian Boyes and Ms. Paul Simpson of Optiwear.

[No response.]

Mr. MITCHELL. Ms. Marcia Faschingbauer. You have Excargo Services, Inc.?

Ms. FASCHINGBAUER. Yes, sir; I do.

Mr. MITCHELL. Tell us a little bit about your business and your relationship with the Small Business Development Center.

TESTIMONY OF MARCIA FASCHINGBAUER, PRESIDENT, EXCARGO SERVICES, INC., HOUSTON, TX

Ms. FASCHINGBAUER. Thank you, Mr. Chairman, for this opportunity. I am the president of Excargo Services. Excargo is a trucking company that serves the Houston area, as well as Texas and the bordering States.

Our primary impetus is in moving cargo in and out of the port of Houston and the port of Galveston. So we do some local cartage work as well as regional short-haul type trucking.

Do you have any other questions?

Mr. MITCHELL. Yes. When did you start your business?

Ms. FASCHINGBAUER. I started my business in August 1983. It had been a division of a family food-packaging business, which I will tell you about in my testimony. It was actually begun in 1979 as a division of a family food-packaging business. I began it and served as the manager and founder, so to speak, of this wholly owned subsidiary.

The food-packaging business that I speak of was also a small business which was founded by my father in the 1930's. And after his death my brother, sister, and I ran that food-packaging business, and I opened the export department in about 1977 and saw opportunities for trucking that was specialized in the area of handling containerized cargo, and opened Excargo in 1979.

Mr. MITCHELL. Now, I know it is in your written testimony, which is before us, but if you will tell me a little bit about Excargo's relationship with the Small Business Development Center.

Ms. FASCHINGBAUER. OK. We have used the Small Business Development Center frequently since about November when I had read that this center had opened here.

I have had some formal consultations with the Small Business Development Center staff, specifically in actually two sessions. One discussing finance and the other accounting and bookkeeping.

I call the Small Business Development Center frequently, probably once every 2 weeks. I will call when a question will come up and I have been just really blessed with their expertise at my fingertips, whether it is about a banking question or personnel question. When I have dropped in the center, I have generally been able to handle several things at once, very quickly, very specifically geared to my level of knowledge and my level of development as a businessowner and just right-on sorts of information.

The thing that I am so thrilled about that I think is so good is that the staff of the Small Business Development Center really engages with me. They are not doing it for me. They don't say, Marcia, this is the answer. They say, well, have you thought about this and this and this?

And they ask me the kinds of engaging questions that are needed for me to find the answer myself and for me to grow as a businessowner.

[Ms. Faschingbauer's prepared statement follows:]

PREPARED STATEMENT OF MARCIA FASCHINGBAUER, PRESIDENT, EXCARGO SERVICES, INC., HOUSTON, TX

In 1975 my father dropped dead at age 59. He left behind a strong and profitable small business. We had all grown up around the business. We knew the operational and technical sides. Armed with youth, dedication, and enthusiasm, the family began to run that business. We worked long hard hours. We attended college courses and professional seminars. We brought in high-priced accountants, attorneys and business consultants. By the fourth year, we realized commitment and hard work were not enough. Our hired experts were getting rich but the company and its new owners were struggling. We realized that these professional consultants were self-serving. Their advice was geared to their profitability, not ours. By the time we discovered how much we didn't know, it was too late. In January of 1985, this 40 year old business was closed. Fifty employees were jobless. Had the SBDC been around ten years ago, I feel certain the story would have had a happier ending.

I now have a small business and rely very heavily on the Gulf Coast Small Business Development Center (SBDC). It serves an extremely vital and unique function to both small and family businesses. The SBDC consults on every conceivable aspect of business. The staff is exceptionally knowledgeable and readily accessible.

These people are good. This breadth and depth of excellence doesn't exist anywhere else. A professional can assist only in his specific field. Too, the meter is running while you educate the professional about your business. So you have a great deal of time and money invested before a private consultant can do any good. And, there are no guarantees. You may pay to find this professional can't help. Or that you don't work well together. Also a professional is motivated to make money for his private practice. Naturally his guidance will be structured accordingly. Moreover, you pay the professional to do the work. So you don't learn.

The SBDC has consulted me in accounting, marketing, finance, and personnel management. While I have had formal consultations, I use the SBDC most frequently as a resource hotline. I learn and grow with every conversation.

In March, an SBDC accounting counselor showed me how to close our books. The same session would have cost $400 from our private accountant. His ability to close our books in house translates to a savings of $2700 per year. This is money we cannot afford to spend. Our current accountant was unwilling to show me how to close our books - even though he is aware of our tight cash position. Clearly, his private practice thrives on our dependence.

Through the SBDC we discovered that large parts of our bookkeeping system were inappropriate for our type of work. We learned to maximize efficiency and accuracy. We scrapped most of the system we had paid a CPA $3600 to set up.

On another occasion, an SCDC counselor prepared me for changing banks. He coached me in what to look for in a bank, what bankers look at in my presentation, and what our corporate strengths and weaknesses are. He taught me how banks judge bank officers and their loan portfolios.

This information has been invaluable. I was able to shop for banks intelligently. I am now developing a good working relationship with a new bank.

Most small business owners are not privy to experienced, knowledgeable people. Books and seminars are very general. Where else do you turn for sound, non-partisan guidance? Who can you call to coach you on your specific business? Your customers? They don't want to hear it. Your colleagues? They're usually struggling, voices, too. Your competitor? That could be treacherous. Your banker? That could be deadly. The SBDC is the only place I have found for such support. The SBDC truly coaches and develops small business owners.

Why is all of this beneficial to the tax paying public? As a tax payer (and conservative, at that!) I am delighted to see the government supporting self-sufficiency. I am tired of dead-ended government hand-outs. The SBDC is not one of thoses paper-pushing, tax concerning monsters. No.

The SBDC is golden. I equate it to showing people how to fish rather than feeding them fish. The SBDC creates an effective bridge between what you learn in business school and the jungle out there-the school of hard knocks. Because of the SBDC, my business is healthier and I am a more capable business manager. Therefore, my employees and creditors are secure. And, I will be able to purchase good and services, create more jobs and contribute tax dollars to the American government. The SBDC strengthens small business. Viable strong business stimulates our economy. It takes profitable business and employed citizens to pay taxes. The SBDC is vital to the future of American small business.

Mr. **Mitchell**. All right. I have some additional questions, but let's hear from the entire panel first.

Ms. Jan Graves, we have a copy of your testimony. If you would like to give us the highlights of your testimony, we would appreciate it.

TESTIMONY OF JAN GRAVES, SEVEN STAR PACKAGING & SUPPLY, HOUSTON, TX

Ms. **Graves**. My husband and I started a warehouse supply company. We had planned to do it for the past year, but in January we put it in motion. As far as the expertise on how to sell in the market in Houston, we knew that; we both had 12 years experience.

We did not know anything about starting a small business. That was totally out of our concept. And just as a fluke, I saw Jon on a TV show that was promoting the SBDC and I called and set up an appointment with Mr. Richard Schnell.

He met with me and he took it from start to finish what we needed to do as far as applying for the sales tax number, the assumed name certificate. He didn't leave anything out.

He didn't want to have any steps that we did not take; so we wouldn't turn around, and stumble, and fall. We got going with our own money, but we knew we were going to have to have a loan to stay in business. The type of products we sell, you expect payment back in 60 to 90 days.

We had the initial setup money; we did not have the money to keep us going through those crucial months while we were waiting on payments to come back in. So I went back to Richard and approached him with this; what is the best way to get a loan?

To me the most important thing that they gave us up to this point was the advice on how to set up a financial statement. He said, don't just walk in the bank and say, this is what we are doing and we need some money.

He said, every bank is going to turn you down. We have had many friends who have applied for loans for small businesses doing it that way and they have been turned down. We want to be advised to do it right.

He took us from start to finish on how to set up a financial statement with the cash flow analysis, the projected sales. There is just a whole list of things that he went over with me to put in this report.

We walked into the banks and we had this all done in a portfolio like he had suggested. They looked at the portfolio. They asked us questions; they did talk to us, but their main interest was in this portfolio we had brought in. They wanted to see that we had the intelligence to do it, but they wanted that portfolio in front of them.

Not only did our bank agree to give us the amount we asked, which was $30,000, two other banks also did—banks that had never heard of us. And there is no doubt in my mind that we were going to be given those loans on that portfolio.

We had gone to a company that does this—a financial statement company. They had told us they would set the same thing up for us, but the fee would be anywhere from a couple of thousand dollars to $5,000. Needless to say, a small business doesn't have that kind of money to set up a financial statement.

So I feel like what they helped us set up essentially got our business going, because without the money we couldn't have made it, and without his help, we would never have put that together.

So in essence he helped us get our business going, I feel. And also, recently I am using the SBDC to help set up a more efficient bookkeeping system, which is another thing that was baffling me, and I called with questions, and like Marcia said, they always had the way to lead you. They don't necessarily tell you how to do it, but they give you options of how to go that would suit your business best. You can take them and mull them over and then do whatever you feel like is right for your company, but the answers are there.

If you have questions about banking, bookkeeping, things that you are just learning as you go, you can turn to the SBDC and they can give you the answers that you need.

And I just felt like without them there, I would have lost my crutch. They are there to help us and they are doing a tremendous job.

Mr. MITCHELL. Thank you.

[Ms. Graves' prepared statement follows:]

Prepared Statement of Jan Graves, Seven Star Packaging & Supply, Houston, TX

In the last week of January 1985, my husband and I were in the process of starting our own warehouse supply company. We both had enough sales experience and knowledge of the business (12 yrs. combined) to feel we could be successful. What we did not have any experience in was all the underlying factors in how to go about starting a small business. I had heard of the S.B.D.C. through a local television talk show, so I called and set up an appointment with Mr. Richard Schnell. In the course of our appointment he not only helped by listing all the first steps to take (such as applying for the assumed name certificate, sales tax , etc); he also discussed the different means of advertising, what types of insurance we needed, the most practical ways to keep our books, the best type of checking accounts and many other details that have saved us valuable time and many unneccessary steps. He then proceded to give me actual leads and names of companies, bookkeeping systems and other people that could help us. He clarified many questions that came up over the first proceding weeks of business.

I also feel one of the most important pieces of information he gave us was how to set up a financial statement to present to the bank as to secure a line of credit. Without said credit we could never make it through the first crucial six months. We had previously approached a "financial company to put this together for us, only to discover the fee would run anywhere from $2,000 to $5,000. We absolutely did not have funds allotted to cover that kind of service. When I explained this to Mr. Schnell, he proceded to step-by-step tell me what the bank's would expect and how to set up the necessary portfolio .

It included a projected cash flow analysis, stock needs and costs, personal resume's, and past experience records. Armed with this information we approached our current bank and two others. Their main concentration was on our portfolio, spending a small amount of time with us, but mostly concentrating on the written information. We not only were offered a line of credit (the amount $30,000 we asked for) from our bank, but also the other two banks. I feel this was due entirely to our "free" financial statement!

Most recently the S.B.D.C. is involved in helping me learn how to best handle my accounting, to figure cash flow analysis on a monthly basis, and other accounting aspects so I can save myself the fee of a monthly C.P.A. This help is being given by Mr. Galen Neal.

I can realistically see myself calling on the S.B.D.C. in the future as questions related to being a small business owner arise. It's certainly nice to know this helpful organization is there when you need it. I feel that without them, Seven Star Packaging & Supply might still be only a dream instead of reality.

Mr. MITCHELL. And now Dr. Donald and Lyla Kirkpatrick of Hyper-Alimentation Laboratory. What is alimentation?

TESTIMONY OF DR. DONALD KIRKPATRICK, HYPER-ALIMENTATION LABORATORY, HOUSTON, TX

Dr. KIRKPATRICK. Well, it is an accepted medical term that means that you give the patient vitamins and minerals through the arm or through the subclavial vein.

We picked that name because it was an accepted medical term. Insurance companies are accustomed to it. The special service that we offer is an analysis of vitamins in blood. And so far as I know, we are the only ones—possibly there is only one other lab in the country that does this service.

We do a complete profile of 11. I come to business from a career in science. I have a Ph.D. in molecular biology and I spent 10 years doing academic research. This is both the strength and the weakness of my background.

My entire life has been science. Consequently, I know nothing of marketing. I know nothing of some other subjects which are very critical to me now.

But let me tell you a little bit about the lab. We have one backer who has staked the lab and provides with clients for the most part. Unfortunately, the backer has not been able to provide the client feed that he had anticipated. And so we had a very severe problem in marketing, which we had not anticipated.

We felt that we would be able to meet our break-even point or a little better, based on our backer's patient feed. So we went to Small Business Development Center specifically in order to find how to do our own marketing, because marketing is one service which is indeed very expensive, if you buy it on the open market.

And we did not have any orientation in marketing at all. We didn't know where to start. We did know that with the service that we had to offer that we needed some clear marketing thinking, because what we have has a great potential, but at the same time it has to be marketed just right.

So we went to the Small Business Development Center with a specific kind of question; it was a very well defined question, although it was a large one. And they helped us with our marketing, yes, but what they did was to back up with us and they did something which most consultants cannot do.

Most consultants can answer a well-defined question, but you can't go into a consultant and say, hey, fellows, what do I do now? And we were in that sort of situation. Mr. Schnell was able to—I guess you would call it counsel—I would almost call it a mentorship—a minimentorship, anyway.

He was able to help us redefine some of our more critical problems which had to do with our relationship and conflict with our backer, the control of our laboratory, the control of our own proprietary process, how to deal with these problems, by using an attorney, by using our heads, and realizing what power we really had.

This is the kind of counseling or consulting which I wouldn't know where to go to buy, even if I had the money in my pocket.

The other point that I need to make about the counseling is something which we have already heard twice.

And that is that these folks don't tell us the answer, because there is no point in telling you the answer. You have to learn how to solve these problems yourselves. And what Mr. Schnell and his staff have been able to do with us is to show us how to deal with marketing problems and how to learn how to use our legal counsel and learn how to use the power that we have in dealing with our conflicts.

There is one other thing I would like to say. I hope it doesn't sound too preachy; I have a number of friends and colleagues that I have worked with for quite a few years who are aspiring entrepreneurs as well.

I used to think that I was very unique. Maybe it is because I am older now that I don't think I am so unique, but here I am, a scientist who has wanted to go into business, and I have a great deal to offer, but I also have some very glaring weaknesses that we have just gone over.

This is true, by and large, of my acquaintances. These fellows have services and products which the media would call high-tech, and for the most part no one else can do these things.

There are many, many individuals like myself who, if given a chance, if given the help that the SBDC is providing me, can bring a real resurgence of productivity to this country. And all of us are willing and very motivated to do it, but most of us don't know how.

That is essentially what I have to say.

[Dr. Kirkpatrick's prepared statement follows:]

PREPARED STATEMENT OF DR. DONALD KIRKPATRICK, HYPERALIMENTATION LABORATORY, HOUSTON, TX

We feel that we are typical of entrepreneurs with science and technical backgrounds in that our backgrounds provided both unusual strengths as well as some weaknesses. Our strengths include the creativity to have conceived new products and services, the technical expertise to have developed them, and the incentive to have built a new business based on them. However, we have needed some guidance in the business aspects of the business. It is important to explicitly identify this guidance as our true need as opposed to an influx of money, which would not in itself have solved our problems.

The SBDC has provided us with three types of guidance. It provided consultation on specific, well defined problems, it provided more general guidance which I would characterize almost as a mentorship, and it has also been able to suggest the need of competent professional help where appropriate. All three types of help are essential to our survival as a business, all represent a way of compensating for the weaknesses in the same background from which we draw our strengths, and none of these kinds of help could we buy. Following is a brief explanation of our business and examples of the types of help the SBDC has provided.

We have developed a specialty clinical laboratory service, a Complete Vitamin Profile in blood. This is a quantitative analysis using methodology which is reputable but not commonly available.
The Complete Vitamin Profile can serve physicians with interests in nutrition, preventive medicine, and several medical specialties. However, its real potential is as a centerpiece and unique service for an entirely new type of health maintenance clinic or professional level "wellness clinic". This concept has potential for developing in pace with the growing "self help" health care industry.

Promoting a new service, which as such potential, demands clear marketing thinking and effective management. However, we had no clear idea of the marketing procedures needed to develop this business. With the help of the SBDC we have been able to develop an overall marketing approach which is suited to our business. The SBDC has provided guidance in developing specific aspects of this approach such as direct mail to selected physician specialties, advertisements and articles in health magazines, and methods for using the public response to the advertisements to develop further physician clients. As a result we have been able to discard methods which are not well suited to our business, such as direct mailouts to the public, and advertisements in newspapers which have been forced on us by our backer. Moreover, the SBDC has pointed out to us how to analyze our marketing plans for cost effectiveness and priority by generating pro forma cash budgets for each plan.

The intangible personal support which Mr. Schnell and his staff have given has been as important to us as the more tangible and directed consultation. We could not have bought this type of help at any price.

In order to survive, small businesses must follow a growth path rather than just maintaining a static position. This is true for us because our backer has been able to send us only about half the client load we had agreed was necessary for start-up. Thus, subsidized benefit which accelerates an inevitable growth. But we could not pay for the kind of help we are receiving from the SBDC. Regardless of the particulars, this situation is common among small businesses and entrepreneurs of our type due to limited personal and financial resources.

Neither our business nor the aid which the SBDC provides to us competes with established businesses, which generally have little incentive to develop entirely new concepts. Witness the fact that after five years our concept is still unique.

In summary, if this country is to have the productivity increase which people like us, as distinguished from established businesses, can contribute, the catalytic help provided by the SBDC is imperative. By providing guidance, consultation, and expertise, not money, the SBDC is serving as a catalyst, producing significant results with little cost. Furthermore, by creating only 3 new jobs (at average $12,000/year) we will provide tax revenue every year equal to the cost we have incurred in free consultation. Find as many of us as you can.

Consultants are generally most effective in dealing with well defined problems, such as marketing problems. However, Mr. Schnell, the Director of the SBDC, has gone beyond the well defined problems by helping us to recognize other problems and our strategic priorities. He spotted weak areas in our business situation which made us vulnerable to takeover by our backer. He showed us that these problems were first among our strategic priorities and showed us how to use an attorney to correct them. He has directed us to an attorney who was competent to handle our particular problem. He has also furnished an efficiency specialist to help with the organization of our office procedures.

Mr. **Mitchell**. Thank you very much.

With reference to Seven Star and Excargo, both of you are doing well with your businesses. You have a line of credit in the bank, and you have a line of credit or good banking relationships.

Did you ever approach the banks about giving you advice on your business, either of you?

Ms. **Graves**. I don't think—our bank wants to see facts and figures. They don't care how we arrive at it and they are certainly not there to help us.

Mr. **Mitchell**. They don't want to give you any advice.

Ms. **Faschingbauer**. During the time that I have consulted the SBDC, I have changed banks. That is another area that the SBDC assisted me in being able to do successfully.

I had done that on my own several months ago—gone looking, and to no avail. I did not win in what I was looking for.

I must say that my initial bank did give me suggestions and advice and I did have a relationship with that banker and still do have a good relationship with her about running my business, and she is a big proponent of the Small Business Development Center, actually.

I think, though, that sometimes bank officers may even lead you into something that will be beneficial to the bank and not to your business so much. This was my experience when I referred to the food-packaging business.

When my father died unexpectedly, that company was strong and viable. There was money; there were profits. The land was paid for; the machines were paid for. I was the youngest of three, and so I was not in the financial management position of the business. I was selling and doing operational things, but I saw my older brother and sister go from loan packager to accountant to business consultant, spending lots and lots of money, and even with the assistance of banks.

And we borrowed money that we really had no business borrowing, because we did not know how to run that business. We had packed beans all of our lives, because that is what that business did.

We could pack beans; we did not know how to run that business. And it dawned on us far too late that everybody that was assisting us was also running a business and they also had a profit motive—even the banks. And that is one of the things that Richard Schnell showed me.

He said, "Marcia, do you know what a bank officer is rated on or reviewed on at the end of their year or whatever? Do you know what the banks look for and do you know what the bank officers are reviewed by?"

And I didn't know what their report cards, so to speak, were based on. And so it has been very helpful to me that the Small Business Development Center could offer me that information and so I could take a look and see what was really going to benefit my business.

Mr. **Mitchell**. All right.

Ms. **Graves**. If I could say something relating to your question.

Mr. **Mitchell**. Sure.

Ms. Graves. We did approach our bank in September of last year, before we actually were a company, with the idea of what we were going to do. We talked to a bank officer. We went in like most people, just like you said, without the knowledge, but with the dream of what we wanted to do, and got no response at all.

We could give them a preliminary—this is what we can do. They looked at us kind of like, yes, that is nice; come back when you can tell us something.

They didn't want to talk to us about—well, then, let's work with you and let's see what you can do. They more or less brushed us off. Afterwards we had no confidence at all in going back to a bank. And after meeting with Mr. Schnell he told us the ways to go about setting up a financial report.

And going back armed with the knowledge that these people are there to do me a service; I am not doing them a service by asking them to loan me money; they are doing me a service—just like she said, I went in with the right attitude and the right information—the same bank officer, who did not remember us from a few months earlier, called us back in 30 minutes and said, $30,000—a piece of cake; if you want more, we will discuss it at a later date.

And these are people that almost patted us on the head and sent us out earlier like I do my 5-year-old.

Mr. Mitchell. Let me ask you another question along the same lines, and you, too, Ms. Goodman, if you want to.

Let me play the devil's advocate for a while. The argument will be raised that there are other programs that offer this kind of assistance, that under the Small Business Administration per se, they are supposed to give technical assistance.

Under the SCORE program, the retired businesspersons under SBA, are supposed to give assistance. The Minority Business Development Agency is supposed to give this kind of assistance.

Is there a duplication? First of all, have you heard of any of these other services?

Ms. Graves. I have heard of—the way it would seem to me would be the effect of going to a specialist or to a family doctor. These people are specialists, because we did check on some of them. I can go to the SBDC. They know everything about my business, just like your family doctor knows your whole family.

I don't have to start from square 1 and work on one specific problem I have. They can cover it all, where some of these other organizations cannot do that. They are there, but they are not there on the broad basis, to me, that the Small Business Development Center is.

Ms. Goodman. I think what is important to note—there are really two specific answers to your question, and I can only speak to Texas; my knowledge does not encompass the rest of the United States.

First of all, in terms of banks—you spoke about the banks—this is a unit banking State, not a branch banking State; therefore, banks are very lean. They got loan officers; they have got tellers, and they have got a couple of vice presidents. That is it.

They can't afford to have those sort of marketing and consulting staff that big branch banks use as really marketing to assist small business. They get more loans that way.

This State has had a very large company orientation until very recently. And it is only with the threat of the large national or other State banks and with the failure of some of the very large companies have these banks all of a sudden discovered in 1984 and 1985 that there is something called a small business. That never occurred to them before; so that you can't get any assistance from banks in terms of management assistance.

The SBA could be far more effective than it is in terms of management and technical assistance, if they had 1,000 more employees down here. The problem is they are very short-staffed, and they probably don't have more than 3 people in the district office who give management and technical assistance to a city of almost 3 million people.

The same problem with SCORE, and as far as the Minority Business Development Center, the Houston Business Council, the Houston-Galveston Area Council, and the variety of public and private sector and community organizations, for the most part, they either handle a little slice of the community—minority business for example, or else they handle a particular technical area. In the Houston-Galveston Area Council it is the 503 Program.

There is to my knowledge in this city—and as a matter of fact, in this region—no agency, private or public, and no organization that says, small business, come one, come all, and we will take whoever you are and we will find service, and if we can't do it, we use an awful lot of community help.

We use private consultants, accountants, lawyers, and they all donate their services, because we really need this economic development desperately. This city is just in not good shape.

Mr. MITCHELL. All right. I assume Mr. Boyes and Ms. Simpson are here now. Before hearing from you, I would want Congressman Hayes to raise any questions to the five persons who have spoken, if you have any questions for them.

Mr. HAYES. I have just one question for each of you that I think we have consistently asked of all witnesses. I understood you to say that you are in the trucking business, Ms. Faschingbauer.

Ms. FASCHINGBAUER. Yes, sir.

Mr. HAYES. How many employees do you have?

Ms. FASCHINGBAUER. I have 5 salaried employees and I have 20 contractors—independent owner-operators—that own their trucks. So they are like small businesspeople, too.

Mr. HAYES. And Ms. Graves, you are in the warehouse supply business. How many employees do you have?

Ms. GRAVES. At this point, my husband and myself, but in August when I go back out and sell, it will probably be two to three added at that time.

Mr. HAYES. Two to three added.

Ms. GRAVES. Yes.

Mr. HAYES. I was just curious, Ms. Goodman. In your statement you indicate that things are not as well here in the Houston area as they might have been in previous years.

Ms. GOODMAN. Very definitely.

Mr. HAYES. Can you give me any figure on the ratio of unemployment in Houston?

I always thought this was where you had to come to if you wanted to find a job.

Ms. GOODMAN. Well, in our region—Houston's unemployment depends on who you listen to at any given time—ranges between 7½ to 8 percent, but in some of our areas—Port Arthur, for example—it is 17 percent.

Did you ever see the movie, "Fort Apache: The Bronx?" That is what Port Arthur looks like. It looks like Bedford-Stuyvesant. It looks like the South Bronx. It is bombed out. There are about seven businesses left downtown in what was once a thriving small American city downtown.

It is just—the refineries, the petrochemical industry—there are tens of thousands of displaced workers in this area, and we find that in our Beaumont region, where we have a formal subcenter opening May 1—but we already have a Small Business Assistance Center there—we are seeing an awful lot of those dislocated, displaced workers from the Texaco refinery closing and the Gulf refinery closings coming in.

They got significant severance dollars. And many of them are starting small businesses. And it is having a significant impact in a very small way. This is one of those give us 3 years kind of things, because it starts small, but the ripple effect is by orders of magnitude.

And the whole idea is to leverage. It is not the Federal Government's business, I believe, to come in and revitalize all of south Texas, because there is south Texas, there are parts of New England, there is California; there are all sorts of places that need it.

But what we can do is we can use this project almost as seed capital, the way the venture capital people think of—you give an idea a small amount of money and then let it take off.

This project is seed effort, seed capital. And we anticipate that more than any other thing, we will be self-generating, self-supporting, and we will be producing the kinds of businesses and economic activity that, over a period of years, will have a real impact on a 17-percent unemployment rate.

Mr. HAYES. Thank you, Mr. Chairman.

Mr. MITCHELL. We will now take your statements, Mr. Boyes and Ms. Simpson.

TESTIMONY OF BRIAN BOYES, ACCOMPANIED BY PAULA SIMPSON, OPTIWEAR, HOUSTON, TX

Mr. BOYES. Mr. Chairman, ladies and gentlemen, thank you for your invitation to appear before you here today. We are very happy to have this unique chance to speak in support of the excellent services provided to our new company by the Gulf Coast Small Business Development Center.

We wish to report the numerous ways the Houston SBDC has helped us as a new corporation. There is an array of expert, professional advice and guidance that they have provided that we could not have found or indeed paid for through any other service. The Houston SBDC has been—and we hope will continue to be—a support service unique and crucial to the beginning of our new company.

In October 1984, we began an in-depth market and operational research study to develop the basic outline of the business entity that has become Houston Vision Systems, Inc., doing business as Optiwear for contact lenses. Optiwear is now an innovative new direct-marketing company that fills and refills contact lens prescriptions using a toll-free phone service to Houston and provides direct delivery to our clients throughout the United States.

The 3-month technical and marketing study that we began in October produced an elementary pro forma. As a thesis document, our pro forma was, well, adequate; however, as a tool to secure venture capital, it proved to be somewhat naive and rudimentary, lacking the polish necessary to stimulate venture capitalists' interest and, more importantly, their investment.

By late December, following these 3 months of research, we were progressing along an increasingly frustrating path. Our business concept and marketing ideas were fully researched, but we didn't know how to effectively package our plan as a marketing tool.

In early January, a public service announcement on a radio station called our attention to the Houston Small Business Development Center. The announcement prompted our initial call to the Houston SBDC.

That initial telephone inquiry was received with pertinent questions designed to evaluate the stage of development we had reached. An assessment of the services needed was immediately discussed, and a few days later, our first formal appointment with our designated counselor, Amelia Evans, took place.

During this first meeting, we were given a complete description of SBDC services, as well as a confidentiality agreement we both signed. We felt indeed confident, delighted about the services and expert guidance and professional services that now had become available to us. Our counselor immediately began to offer concrete suggestions based upon her studies in economics and business administration that neither of us had, and enhanced by also her personal business experience.

Our first few counseling sessions were dedicated to transforming our thesis into a well-organized documented business plan and proposal. Working closely with Ms. Evans and drawing upon her organizational writing skills, we developed a very cogent and complete written presentation. Illustrations were added and new spread sheets were compiled, but perhaps the most significant contribution to our funding tool was the addition and strengthening of technical, economic, and financial terms that had in retrospect been sadly lacking in our original outline.

With this primary objective achieved, our SBDC counselor then moved our attention into the second segment of counseling necessary for our particular business—advertising and promotional planning and budgeting. Through the joint counseling of Ms. Evans and Mr. Richard Schnell, also of the Houston SBDC, we have been able to enhance our advertising and promotional strategies and to avoid many of the common pitfalls that can plague new companies. This guidance included not only sage advice, but also very creative and original input to help stretch our meager advertising and promotion dollars.

Now, armed with our new business proposal and advertising strategies, we were able to secure venture capital. We are delighted to attest to the fact that the unique services provided through the SBDC enabled us to give up considerably less than 50 percent of our initial stock offering, while also retaining management control and a majority of the voting stock. Those objectives had been our prime initial goals, both of which we knew would be very difficult to achieve.

Because we have chosen the corporate structure as our business vehicle, we have retained the services, for example, of an independent CPA. However, through the tutelage of the SBDC accounting counselors, we have been able to minimize the time and maximize the results gleaned through our independent CPA. With the nature of our business, it is vital to our survival to keep all our costs as low as possible.

Considering only the three areas of service offered by the SBDC that we have utilized to date, we have enjoyed professional services worth thousands of dollars, which we couldn't have paid for. The guidance and advice has been comparable to the best unbiased advice we could have purchased, had we been able to do so.

The counselors we have met with have contributed more than their formal expertise. They have bolstered and directed our enthusiasm and pointed out the trees from the forest. They have in such a short time helped to develop our business and marketing acumen and strategies.

The pro forma that resulted from these joint efforts and pooling of expertise has been directly responsible for Optiwear's funding. We have indeed barely used the vast pool of talent, knowledge, and shop-end experience we don't have at the moment that is available to us through the SBDC.

Considering the taxes I currently pay and will happily continue to pay, I feel more than recompensed through such a service as the SBDC. As I have already made mention, the input of the SBDC has clarified our business thinking. It has improved our cost effectiveness and our expected profitability, on which our corporation will be paying its taxes.

As a pre-venture idea, we did not meet the qualifications for an SBA loan, but happily, we did qualify for the best guidance we could find that in time will make an SBA loan unneccesary.

So far we have expounded upon the planned tangible benefits from the SBDC. Other benefits are inherent in the SBDC Program. There is a thriving network of other companies and corporations who have been guided into life by the midwifery of the SBDC. That is what we are here to attest to, I think. This unofficial small business network provides with service—suppliers who are aware of our problems, who can cater their services to our pocketbook and who in turn we are delighted to be able to help and to meet their needs.

As a young growing company, don't take away such a beneficial array of support and advice. The input, continued counselings, and suggestions that the SBDC has made and will hopefully continue to provide are fundamental in ensuring that Optiwear will grow to a successful maturity.

It was Napolean Bonaparte who said of the English that they were a nation of shopkeepers. I believe somehow that the United States is still a nation of small businesses. I also know that the SBDC in the form that exists now is a unique and integral building block in America's free enterprise system.

In closing, we would like to thank you for this opportunity to speak here today and are honored, not only to have been able to tell you our story, but also to be representative of the many small businesses who could not attend today, but who also continue to depend on the funding of the SBDC.

We thank you.

Mr. MITCHELL. Thank you very much for good testimony.

Are all of you aware that under the administration's proposal for the Small Business Administration, the Small Business Development Centers would be eliminated altogether? Are you aware of that?

[Chorus of yes.]

Mr. MITCHELL. They would simply be wiped out. They would no longer be in existence.

There are SBDC's in about 30 States, and we had hearings last year, as I recall, on these programs. We got uniformly good testimony and in 1985 the SBA budget of $28 million-plus matching funds is available.

I guess the question I want to put to you is—the argument is going to be raised that this is costly. So let me come to Ms. Goodman first. What is your budget? Who provides your matching funds and so forth?

Ms. GOODMAN. Our budget is $506,000; 50 percent of that—$253,000—comes from the Federal Government; $127,000 in cash comes from the College of Business Administration at the University of Houston, and the remaining $127,000 is an in-kind contribution—facilities, space, lights, et cetera.

Mr. MITCHELL. All right. Then for approximately $250,000 in Federal money you were able to help how many fledgling businesses last year?

Ms. GOODMAN. Well, we just started. We have just finished our first 6 months of operations. And in 6 months, of operations we have not spent 6 months' worth of our funding. We have spent approximately $90,000 to date to assist 175 businesses and train approximately 300 people.

That doesn't count this quarter's training, which has already trained about 800. And we are just in the fifth week of the quarter.

We anticipate we will serve something in excess of 600 businesses individually this year.

Mr. MITCHELL. But your Federal contribution is a piddling——

Ms. GOODMAN. $253,000.

Mr. MITCHELL [continuing]. $253,000.

Ms. GOODMAN. We estimate we are getting close to $1 million in private sector pro bono contributions. I don't mean cash; I mean manpower hours—Peat Marwick accountants, lawyers, et cetera.

Mr. MITCHELL. All right. Let me come back to the recipients, and I won't keep you much longer.

I think several of you mentioned the value of the assistance that you have received from the SBDC and pointed out that you simply did not have the money to go to other sources to get this.

Which one of the witnesses was it who said that someone offered to provide a service for somewhere between $2,000 and $5,000?

Ms. **Graves**. It was me. It was a financial service. They would prepare a statement and they will go to the bank for you and present your case, trying to get you a loan.

And when I spoke with Mr. Schnell, he said, you are going to do the dirty work for them anyway. You are going to be the one that gets all these facts and figures together. All they are going to do is pretty it up and walk in the bank.

We had already decided anyway that there was no way we could use a company like that; we didn't have the money. We did not have the funds allocated for that type of a venture; so we did do it all ourselves with his guidance and went to the bank and secured the loan ourselves.

If we had used the service, though, they did quote us from $2,000 to $5,000.

Mr. **Mitchell**. OK. Now, if you had the $5,000 to pay them, how would you match that $5,000 in dollars against the assistance you received from the Small Business Development Centers?

Ms. **Graves**. That is real easy—$30,000; that is the amount of the loan we got.

Mr. **Mitchell**. OK. Do you understand where I am coming from? In other words, it is hard to put a dollar value on SBDC services, but suppose you had used consultants for all the problems that you had with your business, Excargo. What would be the dollar cost on that? Would you make a guess?

Ms. **Faschingbauer**. I would say just labor hours of professionals—I do not think that $10,000 to $15,000 is unreasonable. And one of the things that I want to say is that when you hire a private consultant, you spend a great deal of time and money educating them about your business before they can even begin to assist you.

Ms. **Graves**. That is right.

Ms. **Faschingbauer**. And that kills you. We spent $3,600 getting our books set up. And you know what? They don't work. They are good for a company that is a manufacturing business, but we are not in the manufacturing business; we are in a service business.

So I went to the SBDC and discovered that part of our problems were we needed to scrap this thing for which I had paid $3,600. We worked long and hard to make that $3,600.

And I am not—you know, I have a conflict—I mentioned to Mr. Schnell—about even testifying in that on the one hand I am probably speaking against other small business people who are consultants, and that is not my intention, because I do support small business.

It is just that through the SBDC I am able to manage the professionals that I need much more effectively. I know what is needed for the well-being of my company, and without that knowledge, what happens is we get what is going to be for the betterment of this outside consultant.

So I went to the SBDC, given the new system that was workable for our business and spent 4 hours—it would have cost $400—to learn how to close this system—just by hiring a CPA at $100 an hour.

The independent accounting service we used was not willing to show me how to do that, because, you see, they make $225 a month to do it.

Ms. **Graves**. My CPA also charges $125 an hour. I could have approached him with this and he could have worked our way through it, I am sure, on the bookkeeping, the financial statement, probably the whole thing, but it would have been his time and my time combined.

In other words, he wouldn't have said, and these are your options; you go home and figure out the best way to do it and come back to me and we will take you off the clock until you come back.

It would have been the whole process of working out with him while I am on the clock of which way would have been the best. And I could very feasibly say we would have probably looked at 20 to 30 hours of work with my CPA to do this same thing, at $125 an hour.

Now, he is a capable man. He doesn't want to do any more of my books than he has to, but this initial setup would have put me in debt to him more than I could pay.

Mr. **Mitchell**. Do you have one more comment?

Ms. **Faschingbauer**. Yes, sir, I do. In terms of assessing a value, the thing that is difficult about it is that there is not just your time and the professional's time. How do you assess the value that comes out when you have grown and you are a better businessperson? You see, that is the difference.

And you mentioned—all of us mentioned we didn't have the money, but I think we also mentioned if we had the money, there is no place that we know of, private or otherwise, where you can go to get this kind of service under the same roof as efficiently, with taking the least amount of your time away from running your business.

And I am familiar with some of the other programs available and I say, no, there is not duplication. And I just want to point that up. Too, it has been my experience that the caliber of staff at the Small Business Development Center is far superior to anything I have found at the Houston Business Council or even the SCORE Program.

I called SCORE when I was seeing a critical cash problem come up and said, I understand that you people offer some sort of consulting. I am getting ready to hit a wall financially.

And their response was, well, have you taken our three fundamental courses? No, sir, I haven't, but I am not going to be in business by the time I finish taking those three courses.

Mr. **Mitchell**. All right.

Ms. **Faschingbauer**. And that is a true story. Thank you.

Mr. **Mitchell**. Any other comments before we close this out?

[No response.]

Mr. **Mitchell**. I have been a staunch supporter of the Small Business Development Centers, and it does seem to me that it makes good sense, if you are talking about getting total involvement of the Nation on behalf of small businesses, to go to academics and others who have the knowledge and the skills and who can give that to businesses at far less cost.

We are in a time in this country when we hear these exhortations about let's make America great and let's come together and let's all work together for our betterment. Well, obviously, the academic institutions have a role to play in this.

And for the life of me, I can't understand why anyone would want to wipe out Small Business Development Centers. For the least amount of Federal dollars, it represents a maximum amount of community involvement and the best results.

I am going to restrain myself when this argument comes up on the floor of Congress, but I just can't stand rank stupidity. And the proposed abolishment of these represents rank stupidity for me.

Ms. **Graves**. Don't restrain yourself; we need you there.

Mr. **Mitchell**. All right.

Congressman Hayes, any comment? And then I think Dr. Kirkpatrick wants to make one last comment.

Mr. **Hayes**. Dr. Goodman, in your prepared statement you said, we have been extremely pleased by our results. You say, our primary consideration is grassroots economic development.

Well, I want you to elaborate on that. What do you mean by that? Let me ask a question and maybe you can include that in your elaboration.

Have minority aspirants for business sought your services? Can you indicate if you have any figures to confirm those results?

Ms. **Goodman**. Yes. Approximately on the average 23 percent of our clients are minority. Our counselors are predominantly minority. And if they are not minority, they are female.

All of that happens to be accidental. We have no conscious outreach program other than what we regard as necessary to reach all sectors of the community. I sit on the Minority Business Opportunities Committee. I work very closely with the Alexander Grant MBDC in town, and we share clients. We do not duplicate services, because the MBDC handles a certain kind of procurement and loan application process. We automatically do intake on minority clients. If they are appropriate for MBDC services, we move them right over there, because we have limited resources and the idea is to maximize everything here.

But the clients we serve—minority, female, refugees—we have run a seminar for Laotians that has simultaneous translation. At the same time we did a seminar on "Doing Business in Texas."

This ties in with economic development. Let me take 2 seconds of your time to tell you that I have a very unusual background for an academic. I graduated from college in 1962, spent 4 years in management in corporations, retired for 3 years to take care of my little babies, went back to work and had my own business for 8 years.

During that time I picked up an MBA, because I didn't know a darn thing about anything. When I was 35 years old—on my children's insistence, because I was working 7 days a week and 20 hours a day, it seemed like—I think it was really probably only 18—we picked up and moved and I entered a Ph.D. program. I entered the Ph.D. program at the University of Georgia approximately 3 weeks after they opened their SBDC in 1977. I was with them in the capacity of a trainer—not a counselor—for 3 years while I was in the Ph.D. program in business administration and did training all over the state of Georgia.

I became—people who know me well get really frightened, because I am positively messianic on this program. I regard this program as being responsible for Cabbage Patch dolls. You have heard the Georgia stories about helping Xavier Roberts start, and I saw them do that.

I saw them save a guy in Albany, GA, whose family had been in the hardware business for four or five generations and who was going under because he didn't realize he had 1½ million dollars' worth of inventory that had now turned into collectibles. He thought it was old inventory, but it was Lifebuoy soap from 1902.

I saw business after business helped. And when I came down here, I was hired at the University of Houston. My Ph.D. is in strategy with a supporting discipline in microeconomics. And I came down here and said, oh, great lifestyle. College professors have the world's best lifestyle. My kids were happy once again. I could go to football games and soccer games.

And I talked with the dean about having a Small Business Development Center. And they had tried quite often in Texas to get one, and for a variety of fascinating reasons had never been able to.

When I got permission last year to write the proposal, I was like a kid in a candy store. I am very results oriented. The true fact of the matter is that I am a lousy academic, because 15 years is just not short enough closure for me; I need 15 days.

And to have an article under revision for 3½ years makes me climb walls, but if I can deal with one small business and that one small business hires one person and that one person supports a family of three, and that business then buys from another person, which can hire another person, that is the kind of economic development we are interested in.

We are working very hard right now within this region to set up two things: a chain of incubators that will house the Small Business Development Centers. We won't run them; we won't fund them, but they will give us space, and we will be the managers of those incubators, and it will be the private sector that funds that.

And the other thing we are working on is a substantial seed capital fund, because, as you well know, small startup ventures can't get any money if they only want $100,000. They can't go to the big venture capital firms. Their cost of analysis is too high, and anyhow, nobody wants to fund a grocery store or a small cosmetics firm.

There are enormous business opportunities still in America. It is unquestionably—I listen to these stories and I get goosebumps, because I sit there in the regional office—I am not in the actual counseling center, which is right down here on Main Street, and I know very little of the traffic that comes in and out.

I read the reports on a weekly basis. I find out the information on a quarterly basis, but I am very busy out in the region trying to tell the economic development councils and the private industry councils and the chambers and the various private and public sector organizations that we have to work together; we have to leverage all of this.

And when I can look at an estimated 45 jobs created, I know that is a grain of sand, but I will settle for those 45 any day.

Mr. **Mitchell.** We are saying it is not a grain of sand for those persons who get those jobs.

Ms. **Goodman.** Unquestionably.

Mr. **Mitchell.** All right.

You had one last statement you wanted to make?

Dr. **Kirkpatrick.** Yes. I would like to deal with one point which hasn't been brought up, and that is competition, not so much with these independent professionals, but with larger businesses.

I think that there may be a criticism of the SBDC that they are helping these individuals set up competition for existing established businesses. And the point that I would like to make is that my wife and I—in fact, she was the one that thought this whole thing up—we did this 5 years ago, walking up and down the bayou at night.

And after 5 years, it is still unique, and I would like to cite that as evidence that the established businesses are not that active in the type of things that you see here today.

The other thing is that I did some simple arithmetic the other day, and I found that for every three jobs that I am able to create, that we will be paying in taxes an amount equal to—probably; I don't know how much cost we have incurred with 12 hours of counseling—but we will probably pay every year as much as that cost. Every year we will pay, for every three jobs that we create.

And three jobs—if 45 isn't a grain of sand, certainly three jobs is a grain of sand.

And that is all I have to say.

Mr. **Mitchell.** Ladies and gentlemen, thank you. It has been a most informative panel. We appreciate your testimony. We will fight for SBDC and I think we are going to prevail.

Ms. **Graves.** We certainly appreciate it.

Mr. **Mitchell.** Thank you very much.

Again, I think we can take a short break until 12:15.

[Whereupon, a brief recess was taken.]

Mr. **Mitchell.** Thank you for being here. We have copies of your testimony and we would be most appreciative if you would go through and give the highlights of your testimony.

Mr. Whetstone, we are waiting to hear from you.

TESTIMONY OF MORRIS WHETSTONE, GENERAL MANAGER, CAPITAL MARKETING CORP., KELLER, TX

Mr. **Whetstone.** Thank you, sir. It is my pleasure on behalf of Capital Marketing to appear before you good people, and we call Capital Marketing CMC for short.

CMC was formed 16 years ago. At that particular time Affiliated Food Stores, which represents 600 independent grocery people, was doing $150 million in annual sales, and they had no way to be able to go forward and improve their businesses.

So as the result of these 600 retailers putting up capital, 480 of them actually bought stock in Capital Marketing and caused it to be formulated and licensed. CMC has a private capital today of $9 million and has drawn from SBA leverage funds in the amount of

$26 million. The history of this company—we have made 617 loans to independent retailers, which actually total a gross of loans of $72 million. These loans were used for the construction of new stores, expansion and remodeling, equipment and inventory, and the purchasing of existing stores.

Now, I might add here—if I may, gentlemen—that in the course of all of those loans I have worked for this company its entire length of time, and on four occasions I have repossessed stores and destroyed them—a mistake in judgment on our part in the investment and that was it.

Probably from a repossession standpoint I may have repossessed 35 or 40 stores besides that, but I have never lost money on one of them, because we had someone else to go in it and we had done our homework and we did not make a misjudgment in the location or the investment; we made a misjudgment in the individual.

In 1975, when A&P left the market in the Dallas-Fort Worth area, we bought 37 stores through Capital Marketing and we saved 1,850 peoples' jobs. Now, these were bought for the independent retailer, not for Affiliated Foods.

Recently, 26 JRB stores were bought in the central southwestern area of Texas and by this action we saved 1,300 jobs, because these stores would have shut down.

Growth by the independent groceryman could not exist from local financing. We cannot get banks to loan our people money on inventory for 10 years. They laugh at that. We cannot get them to loan money on used refrigeration equipment, but we do.

We at CMC loan 90 percent of the required amount for the furnishings of the store with regard to the furnishing of equipment and additional loan of moneys required for inventory.

These loans are over a 10-year period repayable weekly at the interest rate comparable to local financing. At this time that would be 13.9 percent. Although we do not vigorously—we do vigorously try to cause the financing for the land and building to be done locally, and sometimes we even guarantee part of that loan to cause it to happen to be able to make our money go farther. And we loan our money on what the bank will not loan on—being the equipment and inventory.

Proof of the effect of this program may well be seen on page 5 of a booklet that I gave you all that—the gray one there. Affiliated had a growth of $150 million in volume, as I said before, and this year—16 years later after this company was formed—Affiliated Foods has a $650 million volume.

Now, this was done by only one way and that is by financing of the independent grocerymen. We have no more members than we had when we started. We have not added anybody to our membership. What we have done is take the independent grocerymen and caused those people to own not one store, but two or three stores, buy up these stores from JRB or A&P and that increased our volume.

Generally, the growth of Affiliated is directly proportional to the importance and significance of CMC on the independent groceryman. Without this one arm of financing, Affiliated Food Stores, the independent grocerymen, nor CMC could have grown as indicated in the information before you at this time.

It is important that CMC be able to draw additional funds as permissible from SBA, being approximately $8 million; that is what we have left that we can draw with regard to a maximum of $35 million.

Although I admit to you now at this point in time it is not imperative that we receive that money, because in our case we have grown large enough to be able to borrow it from other sources, but if there are other SBIC's starting out or along the way that are doing for the independent businessman what we have done, they need this assistance; they have to have it to be able to survive.

Because our size has increased so has our ability to obtain funds. The important factor today is when CMC is assisted by the Federal Government, CMC in turn assisted the independent groceryman to produce the growth that is before you in the booklet. Just think what could happen all over our country if all SBIC's could cause the independent businessman to grow. Not so long ago—as all of us know—Lee Iacocca caused quite a controversy in Washington in obtaining money for Chrysler. He was successful in that. His company has been successful. We see it up and down the highways everywhere, but what bothers me—if this program stops, those very people he saved on their way home will not be able to buy product possibly from independent grocerymen or independent businessman, and I don't think that is right. I don't think that is fair.

My friends, this is the simplest form of free enterprise. On behalf of Capital Marketing, Affiliated Food Stores, our membership, we ask for your support, but more importantly, we pledge to you all the efforts of our stockholders, our companies to support whatever cause of action you may ask of us to be able in the future to make this be as good as it is or better.

And in closing I would like to add that 3 weeks ago CMC assisted three independent groceryman to purchase five Eagle stores right here in Houston. And in 10 days we had those people in those stores and operational, doors open, and a new style of operation.

One of the owners is here with me—Ms. Laura Guillory. The lady is a widow lady and she has her children and they are married, have always been in business with her, and she has lost her lease on her grocery store, and we invested in Ms. Guillory about $1 million.

Now, I ask you—do you know a banker in Houston that would loan a widow woman 66 years of age $1 million and her children to go into the grocery business? There isn't such a thing, and we have faith in this lady and the other people that we do business with, and we haven't lost enough of our loans for anybody to criticize what we are doing.

So we support SBA. We want SBA to stay alive, and we will do whatever is necessary to assist you in achieving it.

Thank you very much.

[Affiliated Food Stores 1984 Annual Report and the booklet "Working and Growing Together" are in the subcommittees's files. Mr. Whetstone's prepared statement, with attachment, follows:]

PREPARED STATEMENT OF MORRIS WHETSTONE, GENERAL MANAGER, CAPITAL MARKETING CORP., KELLER, TX

MEMBERS OF CONGRESS, LADIES AND GENTLEMEN:

IT IS MY PLEASURE ON BEHALF OF CAPITAL MARKETING CORPORATION (CMC) TO APPEAR BEFORE YOU TODAY IN SUPPORT OF THE SBA.

CMC WAS FORMED 16 YEARS AGO TO FACILITATE THE GROWTH OF THE RETAIL GROCER. AT THE TIME CMC WAS FORMED, AFFILIATED FOOD STORES, INC. (AFSI), A CO-OP, HAD A ANNUAL GROSS SALES OF LESS THAN $150,000,000.00. AFSI IS OWNED BY APPROXIMATELY 600 RETAILERS, BEING THE CUSTOMERS THAT IT SERVICES AS A CO-OP. APPROXIMATELY 480 OF THESE MEMBERS OF AFSI JOINED TOGETHER AND PRODUCED THE CAPITALIZATION THAT WAS NECESSARY FOR THE FORMATION AND LICENSING OF CMC.

TODAY, CMC HAS A PRIVATE CAPITAL OF $9,155,000.00 AND HAS DRAWN FROM SBA, LEVERAGE FUNDS IN THE AMOUNT OF $26,390,000.00. IN THE HISTORY OF THIS COMPANY, WE HAVE PRODUCED 617 LOANS TO INDEPENDENT RETAILERS TOTALING MORE THAN $72,000,000.00. THESE LOANS WERE USED FOR CONSTRUCTION OF NEW STORES, EXPANSION AND REMODELING, EQUIPMENT AND INVENTORY, AND THE PURCHASING OF EXISTING STORES.

IN 1975 WHEN A&P LEFT THE MARKET IN THE DALLAS-FT. WORTH AREA, THE INDEPENDENT RETAILERS, WITH THE ASSISTANCE OF CMC, WERE ABLE TO PURCHASE 37 STORES WHICH OTHERWISE WOULD HAVE BEEN CLOSED WITH A PREDICTED LOSS OF EMPLOYMENT OF 1,850 PEOPLE.

IN 1981, THE INDEPENDENT RETAILERS, WITH THE ASSISTANCE OF CMC, WERE ABLE TO PURCHASE 26 JRB STORES IN THE CENTRAL SOUTHWESTERN AREA OF TEXAS. BY THIS ACTION, 1,300 JOBS WERE PROTECTED.

GROWTH BY THE INDEPENDENT GROCERYMAN COULD NOT EXIST ON FINANCING FROM LOCAL SOURCES. WE AT CMC LOAN 90% OF THE REQUIRED AMOUNT FOR THE FURNISHINGS OF THE STORE WITH REGARD TO EQUIPMENT AND IN ADDITION, LOAN THE MONIES REQUIRED FOR INVENTORY. THESE LOANS ARE OVER A 10 YEAR PERIOD, REPAYABLE WEEKLY AT AN INTEREST RATE COMPARABLE TO LOCAL FINANCING. WHEN NECESSARY, CMC WILL FUND THE MONEY REQUIRED FOR LAND AND BUILDING, ALTHOUGH WE DO WORK VIGOROUSLY IN TRYING TO CREATE LOCAL FINANCING ON LAND AND IMPROVEMENTS, UP TO AND INCLUDING A FORM OF GUARANTY IN ORDER THAT THE MAJOR PORTION OF FUNDS FROM THIS FIRM MAY BE UTILIZED IN AREAS NOT LIKELY TO BE FINANCED BY LOCAL ENTITIES. PROOF OF THE EFFECT OF THIS PROGRAM MAY WELL BE SEEN ON PAGE 5 OF THE BOOKLET PRESENTED TO EACH OF YOU, WHICH ILLUSTRATES THE GROWTH OF AFSI, AT THE INCEPTION OF CMC, WAS LESS THAN $150,000,000.00 AND AT THE END OF FISCAL YEAR OF 1984 THE VOLUME OF AFSI'S WAREHOUSE WAS $649,000,000.00.

GENTLEMEN, THE GROWTH OF AFSI IS DIRECTLY PROPORTIONAL TO THE IMPORTANCE AND SIGNFICANCE OF CMC ON THE INDEPENDENT GROCERYMAN. FOR WITHOUT THIS ONE ARM OF FINANCING, AFSI, THE INDEPENDENT GROCERYMAN NOR CMC COULD HAVE GROWN AS INDICATED BY THE INFORMATION BEFORE YOU AT THIS TIME. IT IS IMPORTANT THAT CMC BE ABLE TO DRAW ADDITIONAL FUNDS AS PERMISSIBLE FROM SBA, BEING APPROXIMATELY $8,000,000.00. ALTHOUGH I ADMIT TO YOU, AT THIS POINT AND TIME, IT IS NOT IMPERATIVE TO THIS FIRM.

BECAUSE OUR SIZE HAS INCREASED, SO HAS OUR ABILITY TO OBTAIN FUNDS. THE IMPORTANT FACT HERE TODAY IS, WHEN CMC WAS ASSISTED BY THE

Federal Government, CMC in turn assisted the independent groceryman to produce the growth that is before you in booklet form. Just think what can happen all over this great country with other SBICs continuing this program.

Not so long ago, a gentleman named, Lee Iacoca asked the Federal Government to assist Chrysler, being a matter I am sure was of great controversy. However, as we know today, Chrysler succeeded and many jobs were saved.

Today, I say to you, lets not let the Chrysler people on their way home not be able to do business with the independent businessman, because our government would not continue a program that enhances and supports the small businessman.

My friends, this in its simplest form, is indeed the free enterprise systems of America! On behalf of Capital Marketing Corporation and Affiliated Food Stores, Inc., we ask for your support, and we pledge to you all of our efforts as you may need them to cause the continued existence of these programs to better the independent businessman throughout this country!

In closing may I add that 3 weeks ago, CMC assisted 3 independent grocerymen to purchase 5 Eagle Stores locally here in Houston. One of the owners is here with me today, Mrs. Laura Guillory, a widow, most highly respected by our firm.

CMC

Construction Loans.
New Store Financing.
Debt Consolidation Loans.
Equipment and Fixture Loans.
Expansion and Remodeling Loans.
Inventory and Working Capital Loans.

"Building A Successful Future Through Capital Marketing Corporation"

A Federal Licensee
Under the
Small Business
Act of 1958.

SIXTEENTH ANNUAL REPORT

OFFICERS

W. F. Woods
Chairman of the Board

Jerry C. Smith
Vice Chairman & Treasurer

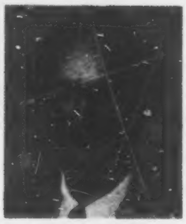
John King Myrick
President

Gerald Sormrude
Vice President

Bill Barrett
Secretary

Roger Fryar
Vice President - Operations

Morris Whetstone
General Manager



Jackie Brewer
Assistant Secretary

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BOARD OF DIRECTORS
CAPITAL MARKETING CORPORATION

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Director
Keller, Texas

Bill Barrett
Secretary
Van Alstyne, Texas

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Dallas, Texas

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Clifton, Texas

W. F. Wood
Chairman of the Board
Vidor, Texas

MESSAGE FROM THE CHAIRMAN OF THE BOARD

I am pleased to report to you that Capital Marketing has completed another successful year. The prosperity of Capital Marketing Corporation comes from the fact that hundreds of retailers have and can in the future count on CMC to keep them competitive and progressive through proper financing. CMC represents sixteen years of dynamic progress for the small businessman. During this period 539 loans and $69,124,713 have been funded to independent retail grocers.

The continued success of Capital Marketing Corporation has allowed your Board of Directors to declare a cash dividend of 25¢ per share payable to stockholders of record at May 6, 1984. This is the fourth successive year that the Company has paid a cash dividend.

Change is a condition of the retail business as well as the lending business. We will continue to prosper by providing assistance to each loan applicant while at the same time providing security to your company. The dedication of the Loan Committee insures that sound loands will continue to be funded.

The Company is in sound financial condition with assets of nearly $37 million and Stockholders' Equity of nearly $10 million. The guidance given by a dedicated Board of Directors will continue the winning tradition of Capital Marketing Corporation. The Board of Directors, the Loan Committee, and the Management all work well together and respect each other. I want to thank them for their effort, hard work, and results. I am looking forward to our new year.

Sincerely,

W. F. Woods

W. F. Woods
Chairman of the Board

MESSAGE FROM THE PRESIDENT

For our fiscal year ended March 1984 we are very encouraged by the economic turnaround. The small independent businessman was in a mood to grow as evidenced by 34 loans totaling $7,731,938. The continuing optimism is further evidenced by the four remodels of existing retail stores and the new construction of seven retail stores that is presently underway.

Capital Marketing Corporation continues to serve as a model example of an S.B.I.C. The government's original goal for the S.B.I.C. program through the Small Business Administration was to provide financial help to the small independent business to encourage economic growth and employment opportunities. The S.B.A. has proven that government and private businesses can work profitably together. We thank the Small Business Administration for the support given Capital Marketing Corporation.

Financially we completed another successful year due to a well established base of assets and capital complimented by good sound loan policies by the loan committee. We have a good portfolio of $34 million in loans and receivables supported by an ample reserve fund. We completed the year with total income of nearly $5 million and a net income of over $600 thousand. The growth, profit and accomplishment of your company is reflected in the accompanying financial statements.

I am glad to have the opportunity to serve as President of CMC. I thank the Directors for their support and direction for our company. The Loan Committee has done an outstanding job in their work on loan requests. We are looking forward to our seventeenth year with the same anticipation that we have shared with you in past years.

Sincerely,

John Myrick

John King Myrick
President

CAPITAL MARKETING CORPORATION

DALLAS, TEXAS

REPORT: MARCH 31, 1984

CAPITAL MARKETING CORPORATION
DALLAS, TEXAS

REPORT: MARCH 31, 1984

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CAPITAL MARKETING CORPORATION
DALLAS, TEXAS

BALANCE SHEET

MARCH 31, 1984

-: ASSETS :-

LOANS AND INVESTMENTS:

Loans		$32,229,232	
Less: Allowance for Uncollectable Loans		613,609	$31,615,623

ASSETS ACQUIRED IN LIQUIDATION OF PORTFOLIO SECURITIES:

Receivables from Sale of Assets		$ 1,742,485	
Assets Acquired		1,099,343	2,841,828

OTHER SECURITIES:

Certificates of Deposit			700,000

CURRENT ASSETS:

Cash		$ 917,411	
Accounts Receivable		408,491	
Accrued Interest Receivable		230,430	
Overpaid Federal Income Taxes		66,409	1,622,741

OTHER ASSETS:

Furniture and Fixtures	$ 5,828		
Less: Allowance for Depreciation	4,551	$ 1,277	
Prepaid Expense		17,212	18,489
Total Assets			$36,798,681

-: LIABILITIES AND CAPITAL :-

LONG-TERM DEBT (NET OF CURRENT MATURITIES):

Notes and Debentures Payable to S.B.A.			$24,970,000

CURRENT LIABILITIES:

Accrued Interest Payable		$ 534,322	
Dividends Payable		4,603	
Notes Payable to S.B.A.		1,420,000	
Other Current Liabilities		209,912	2,168,837

CAPITAL:

Common Stock (1,000,000 Shares Authorized 764,397 Issued @ $1.00 Par)	$ 764,397		
Less: Treasury Stock (Common 14,566 Shares)	(72,830)	$ 691,567	
Preferred Stock (1,780,000 Shares Authorized 1,546,382 Outstanding @ $1.00 Par)		1,546,382	
Additional Paid-In Capital		6,844,362	
Undistributed Net Realized Earnings		577,533	9,659,844
Total Liabilities and Capital			$36,798,681

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

CAPITAL MARKETING CORPORATION
DALLAS, TEXAS

STATEMENT OF UNDISTRIBUTED RETAINED EARNINGS

MARCH 31, 1984

	BALANCE 3-31-83	INCREASE	DECREASE	BALANCE 3-31-84
Unrealized Depreciation on Loans and Receivables (Allowance For Losses)	($1,044,800)	($125,000)	($ 556,191)	($ 613,609)
Undistributed Retained Earnings	1,765,809	125,000	556,191	1,334,618
Undistributed Net Retained Earnings Before Fiscal Gain and Dividends Paid for the Fiscal Year Ended March 31, 1984	$ 721,009	$ -0-	$ -0-	$ 721,009
Net Income Before Provisions For Federal Income Taxes			$1,063,891	
Federal Income Taxes			469,140	
Net Income for the Year				594,751
Dividends Paid:				
Common Stock Cash Dividend			$ 186,985	
Preferred Stock Cash Dividend			387,436	574,421
Less: Adjustment For 1983 Stock Dividend (Note 8)				163,806
Undistributed Net Realized Earnings				$ 577,533

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

CAPITAL MARKETING CORPORATION
DALLAS, TEXAS

STATEMENT OF
INCOME AND EXPENSES

FOR THE YEAR ENDED
MARCH 31, 1984

REVENUE:			
Interest on Loans and Debt Securities			$4,441,941
Commitment Fees			281,889
Interest on Idle Funds			177,450
Other Income			73,601
Total Revenue			$4,974,881
FINANCIAL EXPENSE:			
Interest on Long-Term Debt		$2,857,480	
RENUMERATION:			
Employee Salaries	$129,987		
Directors' and Stockholders' Meetings	1,608		
Management Service	354,630	486,225	
INITIATING AND SERVICING COSTS:			
Communications	$ 1,686		
Legal Fees	20,313	21,999	
FIXED FACILITIES:			
Cost of Space Occupied	$ 4,800		
Depreciation	486	5,286	
OTHER COSTS:			
Audit and Examination Fees	$ 18,967		
Taxes	39,474		
Loss on Loans	125,000		
Insurance	4,641		
Miscellaneous Expense	30,769		
Expense on Assets Acquired	321,149	540,000	
Total Expense			3,910,990
Net Investment Income Before Federal Income Taxes			$1,063,891
Less: Federal Income Taxes			469,140
Net Investment Income			$ 594,751
Earnings Per Share (Note 4)			$ .79

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

CAPITAL MARKETING CORPORATION
DALLAS, TEXAS

STATEMENT OF CHANGES
IN FINANCIAL POSITION

MARCH 31, 1984

-: SOURCE OF FUNDS :-

From Operations Realized:

Net Investment Income	$ 594,751	
Add: Depreciation	486	
Provisions for Loss on Receivables	125,000	
Total		$ 720,237
Collection on Loans and Debt Securities		5,619,410
Loans and Debt Securities Foreclosed On		2,939,136
Decrease in Certificates of Deposit		2,050,000
Increase in Current Liabilities		1,560,265
Increase in Additional Paid-In Capital		163,806
Total Funds Provided		$13,052,854

-: APPLICATION OF FUNDS :-

Increase in Loan and Debt Securities	$ 7,713,894
Decrease in Current Assets	872,691
Increase in Prepaid Expenses	8,500
Decrease in Long-Term Debt	1,420,000
1983 Stock Dividend Adjustment	163,806
Dividends Paid	574,421
Increase in Assets Acquired in Liquidation	1,743,351
Bad Debt Charged Against Allowance for Uncollectable Accounts	556,191
Total Funds Applied	$13,052,854

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

CAPITAL MARKETING CORPORATION
DALLAS, TEXAS

NOTES TO THE
FINANCIAL STATEMENTS

MARCH 31, 1984

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Depreciation:

Fixed Assets are depreciated using both the straight-line and declining balance methods of depreciation over five to ten years. The depreciation expense for the year ended March 31, 1984 was $486.

Allowance for Uncollectable Loans:

The company uses the reserve method for bad debts. This year the company added $125,000 to the allowance for uncollectable loans. The company realized $556,191 of bad debt during the year ended March 31, 1984 which reduced the Allowance for Uncollectable Loans.

NOTE (2) NOTES PAYABLE:

The following is a summary of Notes Payable:

DATE		PAYABLE TO	INTEREST RATE	DUE DATE	CURRENT PORTION	LONG-TERM PORTION
03-19-75	....	S.B.A.	8.0 %	03-01-85	$1,420,000	$
06-18-75	....	S.B.A.	7.92	06-01-85		2,600,000
09-22-76	....	S.B.A.	7.755	09-01-86		2,850,000
09-21-77	....	S.B.A.	7.715	09-01-87		930,000
07-19-78	....	S.B.A.	8.825	07-01-88		430,000
09-20-78	....	S.B.A.	8.545	09-01-88		3,000,000
08-20-80	....	S.B.A.	11.255	08-01-90		1,150,000
08-20-80	....	S.B.A.	11.255	08-01-90		1,510,000
02-18-81	....	S.B.A.	13.755	02-01-91		9,000,000
04-30-81	....	S.B.A.	14.055	05-01-91		500,000
09-29-82	....	S.B.A.	12.115	09-01-92		1,000,000
10-20-82	....	S.B.A.	10.705	10-01-92		500,000
10-20-82	....	S.B.A.	10.705	10-01-92		500,000
10-20-82	....	S.B.A.	10.705	10-01-92		500,000
10-20-82	....	S.B.A.	10.705	10-01-92		500,000
					$1,420,000	$24,970,000

NOTE (3) DIVIDENDS PAID:

A $.25 per share cash dividend was paid on both preferred stock and common stock.

NOTE (4) EARNINGS PER SHARE:

Earnings per share was calculated on 749,831 shares of common stock being outstanding for the year ended March 31, 1984.

NOTE (5) COMMITMENTS:

As of March 31, 1984, the company had loan commitments outstanding in the amount of $2,675,067. These commitments are not shown in the financial statements since no money has been funded.

NOTE (6) PRESENTATION OF STATEMENTS:

These statements are presented in a format preferred by the Small Business Administration and therefore differ from generally accepted accounting principles in presentation.

NOTE (7) MANAGEMENT FEE:

The company pays Affiliated Food Stores, Inc. a management fee. The fee equals 25% of net income before Federal Income Taxes and is paid quarterly.

NOTE (8) PRIOR PERIOD ADJUSTMENT

During the fiscal year ending March 31, 1983 the stock dividend was recorded at par value. Stock Dividends are required to be recorded at market value. To adjust the stock dividend the company capitalized an additional $163,806 thereby increasing additional paid-in capital and reducing retained earnings by this amount.

May 11, 1984

Board of Directors
Capital Marketing Corporation
Dallas, Texas

Gentlemen:

We have examined the balance sheet of Capital Marketing Corporation as of March 31, 1984, and the related statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Capital Marketing Corporation at March 31, 1984, and results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principals applied on a basis consistent with that of the preceding year.

Respectfully,

Nelson & Nelson

Nelson & Nelson
Certified Public Accountants

Mr. MITCHELL. Thank you.

Mrs. Guillory.

TESTIMONY OF MRS. LAURA GUILLORY, KING SAVER, MISSOURI CITY, TX

Mrs. GUILLORY. Thank you, Mr. Chairman. I am currently 66 years of age, a widow of 8 years. Recently with the help of SBIC and my family I started a new supermarket.

This business would not have been possible without the help of my family, Affiliated Foods, and the SBIC. The grocery business that my husband and I started in 1969 continued to do well until we lost our lease in 1984.

An abrupt closing of the previous business caused great financial difficulties for my son, daughter, son-in-law, 2 granddaughters, and a grandson, 20 employees, and myself.

The closing of the business left me without much hope of relocating or reopening. In March 1985 my hope became a reality when I opened a million dollar-plus business with the help of the SBIC, Capital Marketing, and Affiliated Foods, and family members.

The new business currently employs all the family members plus 55 new employees which have previously been unemployed or collected unemployment wages. This business, with the significant help of the SBIC, has now taken 62 people and turned them into productive employment persons no longer requiring free Government aid.

Many of my colleagues have had similar problems which have caused closing of their businesses. Due to the fact that the banking industry is not backing the independent business now, these businesspeople may not ever restart. This does include the business that will not be able to improve, expand, or the people that will never have the opportunity to start their own business without Government support.

Thank you.

Mr. MITCHELL. Thank you both very much.

Mr. Whetstone, your chart on page 5, shows a phenomenal growth pattern. You said you have access to other sources of capital?

Mr. WHETSTONE. Yes, sir.

Mr. MITCHELL. Are you at liberty to name some of those?

Mr. WHETSTONE. Yes, sir, I can. The mother company, Affiliated Foods itself being now as large as it is, probably has the ability to borrow money from insurance companies, various entities like that. If necessary, we then in turn can borrow from them, you see.

Mr. MITCHELL. Yes.

Mr. WHETSTONE. So we do from time to time do things of that nature, but that has developed over the last 5 or 6 years as our company got large enough to be able to achieve those types of criteria.

When we started out, we were at the absolute mercy of borrowing money from the Government; that is all we could do. And I think that is what is so important here about other SBIC's helping independent businessmen, because so many of them are in that exact same position and they can't borrow it anywhere else.

So I really believe in that.

Mr. MITCHELL. Based on the amount of SBA funds that you have available to you that are not immediately needed by you——

Mr. WHETSTONE. Yes, sir.

Mr. MITCHELL. Based on that, would you recommend a cutback in the SBIC funding through the SBA?

Mr. WHETSTONE. No, sir, I would not. And my reason for that is right now today if SBA would accept and fund to me the $8 million, I would increase Capital to do it, because I have spent that much money.

When we bought the stores here in Houston, they cost about $6 million. That is almost most of it right there. And that is not talking about the 18 stores I have under construction.

So what is keeping us from borrowing that $8 million from the SBA at this moment is an examination of our records, because the requirements are such that you cannot borrow funds from SBA until you have had an examination within 1 year of your request.

The examiner will be in our office on May 28, and when he leaves, then we will go to application.

Mr. MITCHELL. OK.

Mr. WHETSTONE. So, no, sir. I—for my part, we can use the funds, most definitely.

Mr. MITCHELL. All right. I have one other question. As I can recall it, the SBIC's around the country are enjoying a relatively high degree of success. I think most of them are doing well.

I have had some quarrels with some of them, because their minority participation has not been up to what I thought it should be, but I think they are beginning to address that problem.

With that background, do you foresee a situation in which the SBIC's at some point in the future will in and of themselves become strong enough entities so that you won't have to rely on any Federal money at all?

Mr. WHETSTONE. Yes, sir, I do see that; indeed I do. I can't reach out magically and tell you what that capitalization would be, but obviously here we have loaned $72 million, but we only borrowed $27 million from the Federal Government; so the funds begin to roll.

Mr. MITCHELL. Right.

Mr. WHETSTONE. And the success story—now, the other thing is the SBIC operating as a profit structure for the investors in it that expect a 12- to 13-percent return per year on their money.

If they are, then the answer to your question will be in the long distant future we do this as a passthrough and have never paid a stockholder even 6 percent.

So I think it is—what is your goal? Are you to pass this through to the person and make a success out of it and not get a high gain—and to our organization we feel that was the intended purpose of the act in the first place.

Mr. MITCHELL. Right.

Mr. WHETSTONE. But people that are doing this as a living—then the answer to your question would be much farther down the road.

Mr. MITCHELL. Yes. I find it exceedingly difficult to accept the recommendations of this administration with regard to SBA based upon a crash closedown kind of operation. It may well be that some point in the future we will want to do this, but we have a lot of good things going like the MESBIC's and the SBIC's, which are going to take some time before they reach their maximum potential.

If you close it down now, you nip your operation in the bud so that it can't possibly grow any more. If I had any recommendations to make to the administration, it would be to go slow on this kind of crash sort of program; you just can't end everything overnight.

I think most of us are in agreement that in this country we are going through some rather significant economic changes. And there will be reductions in Government spending.

My position is how do you make those reductions? Do you do it in a Draconian manner or do you do it on a phasedout basis so that you are putting something else in place where that Government support was?

Mr. WHETSTONE. Congressman Mitchell, would I be correct in assuming that this program of SBIC's and the money which it has borrowed from the Government has in all probability cost the Government—bottom line net—less than almost anything else it has ever ventured into?

Mr. MITCHELL. I think you are right. I think for the amount of Federal moneys that have gone into this program in relationship to accomplishments, I think it is probably less than other kinds of Federal investments.

Mr. WHETSTONE. Right. Now, the diversification of all of the investments of these things from grocerymen to Federal Express, even—that kind of diversification across the whole country to me is the greatest thing on earth for independence, for price controls, let us say, by competition.

If we do away with this and we do away with the independent businessman and just the large people are able to do it, then what will we pay for our local bread or whatever?

Mr. MITCHELL. Thank you. Would you stay for a couple of minutes? Congressman Hayes may have some questions.

Mr. HAYES. Just one. I noticed that both of you in your prepared statements have come up with some figures—some numbers which I like—telling how many jobs you currently give to people as a result of remaining in business or save as a result of the acquisition of some stores that were going to be closed.

Mr. WHETSTONE. Yes, sir.

Mr. HAYES. Having been associated with a union organization that was in the retail food business for a number of years, I had some smattering knowledge of the A&P closedown, not only in this area, but in other sections of the United States.

And I just want to compliment you. I don't know whether you saw fit to do business with the union or not—I am not here advocating it or advertising it—I hope you have, but the bottom line is you were able to save people's jobs. And that is important to me. We need to stress that, because the unemployment figure that is being quoted so much—the picture—is not as rosy in many areas as we have been told.

And I think that the bottom line is to try to help people find jobs and the ripple effect that it has on the family and the total community, as you described, Mr. Whetstone, I think is pretty accurate.

Thank you, Mr. Chairman.

Mr. WHETSTONE. We make a concentrated effort at every one of our stores to employ especially the children that are going to school. Many of our independent grocerymen do a better job of acting upon the grades of those children than do the parents themselves. The policy of our storeowners are such that the child must make a passing grade or they do not work, and that is the way it is. It is amazing how much effect that has on the kids wanting to have some money.

So we are very proud of that, and we have done this in all of our stores.

We thank you for permitting us to be here.

Mr. MITCHELL. Thank you very much.

Mr. Dark, the way we are proceeding now, we are trying to take people in the order as they came in to the hearing, and there are some others just ahead of you. And if you will just take a seat, we will call you back up in a moment.

Mr. John Knox, from Texas American Insurance; Mr. Paul Lembo, from Schultz & Lembo; and Mr. Everett Jagger—if you three gentlemen will come up, please.

Thank you. We have copies of your statements. Most of them are relatively brief statements. If you would like to present them in their entirety, that would be no problem.

TESTIMONY OF JOHN KNOX, JR., PRESIDENT, TEXAS AMERICAN INSURANCE, HOUSTON, TX

Mr. KNOX. Thank you, gentlemen. My name is John Knox. First, I would like to thank you all for coming to Houston and seeing some of the benefits of the different programs, particularly in our case the Small Business Administration's Bond Guarantee Program.

I am the founder of Texas American Insurance, which specializes in writing SBA-guaranteed bonds. We are the largest writer in region 6 of these bonds, with offices in Houston and Dallas, suboffices in Little Rock, Albuquerque, NM, and New Orleans, LA.

We started writing bonds in the program in 1979 and acquired another agency that had been writing them since the inception in 1971. Our involvement with the program has enabled us to see the benefits to a variety of smaller contractors that have just started out in business, to contractors that could not otherwise obtain bonds because of the roles of the traditional surety markets.

Most of these are new contractors that are just starting in business or the ones that have never been able to qualify from a size standpoint and net worth standpoint, but were quite capable of doing projects and building their businesses.

In 1980, SBA came up with some requirements—in 1981 when the Reagan administration came into office, SBA felt there were going to be severe budget cuts; so their underwriting requirements for contractors became very stringent in what they would look at and their basic guidelines tightened.

As a result, a lot of—several companies started to write these same contractors on a non-SBA program to where they would go on and require collateral and would charge excess rights. Most contractors under the SBA program are paying about a 2-percent premium.

These companies were charging anywhere from 2 percent, up to 5, and 6 percent of the contract price, and this is an industry that only averages 3 or 4 percent profit.

When those companies started writing the contractors without SBA's guarantee, they required collateral from most of them. So two things happened from 1980 up until the present with what I will call the specialty markets or the ones who were writing the contractors who would normally be in the SBA Program.

As a result of making them place collateral, which is usually in the form of a letter of credit or something of that nature, which tied up their working capital position, combined with charging rates much higher than the rate that they could obtain a bond for in the SBA Program, it put a lot of strain on that contractor.

As result, the specialty market started getting more losses—much more losses than they had ever expected to. So what we have seen in the last year have been four of the major writers of those companies—two of them are now insolvent and out of business because of the claim situation.

And two other markets have completely quit writing surety bonds altogether. When those markets have gone out, what we started to see over the last couple of years—there has been ample amount in the budget because of the excess going to the specialty market.

What we have started to see now is the volume in SBA is starting to come back up. Last year was probably one of the worst years the surety industry as a whole has ever had.

They have been very difficult for contractors, particularly in the Houston area, that I have seen, and as a result, I see a greater need today for SBA than we have seen probably in the 7 or 8 years that I have been involved in the program.

There are two contractors that are here today that I have bonded and still do. One is Paul Lembo with Schultz and Lembo. He started in business in 1980, started out his company with $1,000 worth of capital and some working capital loaned to the company, brought a very good track record and background in the industry, but nobody would look at doing bonds for him, simply because he was new.

Everything Paul's company has done, with the exception of one or two jobs over that period of time, have been bonded. And we started out with him in the SBA program doing jobs under $100,000.

He was able to graduate from the program in September 1981. At that point we had him up in the $500,000 range that we were providing bonds, on a single bond of $500,000 up to an aggregate of about $1 million.

He is currently bonded with Trinity Universal [phonetic] Insurance Co. on about a $6 million line.

Paul Jagger and his partner formed a company called Traffic Maintenance & Construction in January 1982. The first bond we did for Paul in the program was for $4,300. We are now doing bonds for him in the $300,000 to $400,000 range. His fiscal year ends May 31 and we are expecting at May 31 of this year, when his yearend financial statement is available, he will have established a track record where he does not need SBA's guarantee any further.

And these are some cases—and we see cases like this on a regular basis where a contractor is starting out brand new. If he has to go into these specialty markets that developed in 1982, he is never going to make a profit.

And I think that is the reason we have started to see today those specialty markets tend to go away—of the four that I mentioned. The standard markets—the USF&G's and the ones of the larger writing sureties—have experienced tremendous losses last year.

The figures just came out from the surety association that indicated their pure loss ratio was approximately 70 percent this year. And that is an industry that has a 70 expense ratio. So we are probably going to look at loss ratio figures of 140 percent this year in the entire industry.

Mr. MITCHELL. I don't generally do this, but how does that compare with the 2 prior years?

Mr. KNOX. Last year the loss ratio—and I didn't bring those with me—was around 35 percent.

Mr. MITCHELL. It doubled.

Mr. KNOX. Yes.

Mr. MITCHELL. OK.

Mr. KNOX. As a result of the losses in the major companies, most of the sureties—and I look particularly in the Houston area where we are—are not looking at anything; regardless of how good it is, they are not looking for any new business.

They are trying to reunderwrite their books of business and get rid of the ones that were there. We are seeing accounts today that we are getting submissions on and requests for SBA-guaranteed bonds that 2 years ago the traditional markets would have written, but as a result of the losses that they experienced last year, we are seeing a tremendous effect to where I think in the next year that SBA is going to be very—in the next couple of years particularly, SBA is going to be very viable for those contractors, who may have been a borderline situation for the normal markets that won't even talk to them today.

[Mr. Knox's prepared statement follows:]

PREPARED STATEMENT OF JOHN KNOX, JR., PRESIDENT, TEXAS AMERICAN INSURANCE, HOUSTON, TX

My name is John Knox, Jr. and I would like to thank you for taking time out of your busy schedules to visit our city and to see the benefits of the Small Business Administration's Bond Guarantee Program.

I am the founder and the President of Texas American Insurance. Texas American Insurance is the largest writer of SBA Guaranteed Bonds in Region VI. Our home office is located here, in Houston, and we have general agents and branch offices in San Antonio, Dallas; Albuquerque, New Mexico; Little Rock, Arkansas and New Orleans, Louisiana.

I began writing bonds in the SBA program in 1979. In 1981 I acquired the ownership of another agency that had been participating in the SBA Bond Program since its inception in

1971.

Our involvement with the SBA has enabled us to observe the benefits received by both the small contractor and the contractor just starting in business. Without the SBA these contractors would not be able to obtain bonded work. Most of the standard or preferred surety markets have certain underwriting criteria which precludes the small and new contractors from being able to obtain bonding.

In 1980, due to a fear of budget restraints, the SBA Bond Guarantee Program tightened its underwriting to a large degree. At that time we saw many specialty markets attempt to come in and write the small contractor by utilizing higher rates and collateral. Two things happened as a result.

Certain collateral requirements put great financial strain on many contractors. Further financial strain was incurred by these contractors as a result of significantly higher rates. Thus, the default ratio for the companies attempting to underwrite on this basis increased significantly. Last year we saw two major specialty writers become insolvent and saw several others withdraw from writng surety bonds altogether. Consequently we have seen SBA's volume escalate.

The last two years have been very difficult for all contractors, particularly those in the Houston area. I see a greater need today than ever for the continuation of the Small Business Administration's Bond Guarantee Program.

I would like to introduce two contractors that are here with us today; Mr. Paul Lembo, President of Schultz & Lembo, Inc. and Mr. Paul Jagger of Traffic Maintenance and Construction, Inc.

Schultz & Lembo began operations in early 1980. Virtually all of the work performed by Schultz & Lembo, since its inception, has required bonding. Their first jobs began under $100,000. and by September of 1981 they were doing projects up to $500,000. Without the SBA program Schultz & Lembo would have never expanded to its current size. Mr. Lembo has graduated from the SBA Program and currently has a bond line with the Trinity Companies.

Paul Jagger and his partner formed Traffic Maintenance and Construction, Inc. in January, 1982. When we began bonding Traffic Maintenance they had a net worth of approximately $10,000. Their bonding capacity began at $4,380. and has increased to a bonding capacity in the $300,000 to $400,000 range. Traffic

Maintenance's net worth has grown to approximately $250,000. I feel confident that when the May 31, 1985 fiscal year-end statement is available Traffic Maintenance & Construction Inc. will be in a position to graduate from the SBA Bond Guarantee Program. The SBA Program is what allowed Mr. Jagger to build his company as rapidly and as profitably as he did.

In closing I would like to thank you for allowing me the time to share my feelings with you regarding the Small Business Administration's Bond Guarantee Program. I will be more than happy to answer any questions you may have now or after Mr. Lembo and Mr. Jagger have testified.

Mr. MITCHELL. Thank you. I have some questions, but I would likt to hear from your colleagues.

Mr. Lembo.

TESTIMONY OF PAUL LEMBO, PRESIDENT, SCHULTZ & LEMBO, INC., HOUSTON, TX

Mr. LEMBO. Our business was incorporated in 1980 as commercial general contractors. This was my first attempt at my own contracting business, and previously I had been employed for 9 years in the construction business and had a background in management and in construction.

Also, I received my State license in the State of Florida as a general contractor. Starting in a new business, the opportunity to grow for a new small business of this type was severely restricted by lack of track record and lack of bonding.

And by track record, we mean being invited to quote a project or being qualified to quote or to get the opportunity to at least put a price together on a project. Without that track record, it was extremely difficult in the standard commercial areas.

Our only resource at that point was to go to the public areas—government, State, and Federal work, which required a bid bond to able to quote the price.

Your track record is accomplished through proper performance and time, but the bonding—particularly the bid bonds—allowed us to quote projects that we would not have otherwise been—that we would otherwise have been prevented from bidding.

This was mainly city and government work. Had we not had a bid bond, our quote would not have been accepted. The standard bond market requires a 3-year track record before considering your company.

Were it not for the SBA bond program, we would have not had the opportunity to bid and subsequently receive the projects which helped up establish our track record.

After approximately 1½ years in the program, we had established enough experience factors and growth to be considered for a standard bond line of $1½ million.

Today we enjoy a standard bond line of $6 million, and we steadily employ between 40 and 60 hourly people, an office staff of 9, and we have our own in-house computer system at this point.

Our growth in the past 5 years would not have been as rapid or as successful had we not been given the bonding help we needed in the beginning.

Mr. MITCHELL. Thank you, sir. Mr. Jagger.

TESTIMONY OF EVERETT P. JAGGER, VICE PRESIDENT, TRAFFIC MAINTENANCE & CONSTRUCTION, INC., HOUSTON, TX

Mr. JAGGER. Thank you. I will make it real brief. I don't think Traffic Maintenance & Construction would be in existence today without the SBA Bonding Program.

About 99 percent of our business in 1982 was contigent upon a Harris County maintenance contract, which required $330,000 worth of bonding, and we would not have had the business to continue operation without the SBA.

My letter states that I made some preliminary investigations into getting bonding in the regular market. Mr. Knox mentions the special market. I was not able to find the special market. I was not able to get a yes or a no from any of the regular agents I visited.

We were consistently tied up in me submitting financial data and waiting for a response and them telling us that they were looking for someone to market us.

So when I finally came across the SBA program, as I say in my letter, within 1 week we had bonding capacity. So I am just going to say emphatically that TMC wouldn't be in existence today without it.

[Mr. Jagger's prepared statement follows:]

PREPARED STATEMENT OF EVERETT P. JAGGER, VICE PRESIDENT, TRAFFIC MAINTENANCE & CONSTRUCTION, INC., HOUSTON, TX

Traffic Maintenance and Construction, Inc. began operation in January 1982 with one full and two part-time employees. The company specializes in maintaining traffic light systems.

When the company was first formed, I made some inquiries into getting bonded. At that time, I was unaware of the SBA bonding program. Due to our lack of work experience, we were unable to get a firm commitment from anyone. For the next 12 months, we aggressively pursued business in order to build a company track record.

At the beginning of 1983, I began to look for bonding again. After a month, our first contact could not give us a definite answer. During this period, an acquaintance of mine suggested I try the Small Business Administration. Within a week after I had contacted the SBA, we had received a positive reply.

Today, Traffic Maintenance and Construction, Inc. has approximately 10 full time employees and maintains around 400 traffic lights in the greater Houston area. TMC is currently expanding into installations and sales of traffic systems. As a result, we are projecting gross sales in the area of one million dollars for 1985.

In conclusion, I believe that the Small Business Administration's bonding program is providing a very essential stepping stone for building our company into a financially sound, growth oriented business.

Mr. MITCHELL. Thank you

In your statement you said that it is standard that you have to have 3 years of track experience before you will even be considered for bonding?

Mr. LEMBO. That is correct.

Mr. KNOX. Mr. Chairman, that is as a general rule. When you look at certain criteria that most of your major surety writers in the country have, that is a general rule that you must be in business for a period of 3 years prior to them considering looking at your account.

There are exceptions to that. Paul is one particular example. After approximately 1½ years in the SBA Program he had shown a very good track record and had grown very rapidly during that period of time; so he was able to get bonds in his particular case with USF&G at that point because of his ability.

But as a general rule, it does take 3 years of a track record before a surety will consider.

Mr. MITCHELL. Then absent the SBA Bonding Program, you almost preclude any new starts.

Mr. KNOX. Yes, sir.

Mr. MITCHELL. There is nothing there for the brandnew contractor.

Mr. KNOX. Unless you can find unbonded work. You look at certain specialties. Mr. Jagger's specialty is in traffic control products—putting traffic lights in, servicing of those facilities, which is all public work, which all has to be bonded; so for a company like traffic maintenance without bonds, there is no work for them. There is no private work in that area.

Mr. MITCHELL. OK. Maybe I shouldn't ask you this, but I am going to do it anyway.

I have had the feeling that SBA has not aggressively sold its bonding program. Am I right, am I wrong, or no opinion?

Mr. KNOX. You shouldn't have asked and I shouldn't answer it.

There are 40 or 50 employees in the SBA Bond Guarantee Program. We deal in region 6 primarily, in Dallas—with the regional administrator. Then there are the Washington people who they do not directly answer to.

So each region kind of operates separately as a result of that system. When you go above the regional surety bond guarantee officer, I don't think there is anybody in the region who cares if the SBA Bond Program exists.

There are a lot of dollars that they guarantee, but it seems to be something that they are more interested in the loan program, and when something has to go above the surety bond guarantee office to F&I or to any other people in the district, there seems to be no interest in the SBA Bond Program.

And I think that is the reason that it is not promoted as properly as it should. I think the Washington people make a certain attempt and Howard Huegel has made a certain attempt to promote the program, but when the people in the district are not under his supervision to where it can be a coordinated effort, and the people in the district have no desire to build the program, I think that is where the problem comes in.

Mr. MITCHELL. This is not directly related to our hearing today, but how do you explain that fantastic increase in losses for the bond companies from last year to this year?

Mr. KNOX. I think it is a long-term effect of the economy. Things have not been good over the last few years. A lot of these contractors have been very big—very solvent positions that are used to some very large work programs, and a lot of it has been the very large contractors that have gone under.

One particular loss in Dallas that recently happened is looking at $260 million worth of outstanding work. If you have a big contractor like that go under, that is going to take a lot of small contractors with it who are doing business with that particular company.

They went under, I believe, as a result of the economy. It has been over the last 5 years. I think they have been in very good financial condition for a number of years. Now I think maybe the economy is starting to get better, but it is the effect that you only have so many retained earnings. They finally got in a lot of trouble.

It has been very competitive for a number of years. Houston right now in the construction business—it is an overbuilt city. We have a great deal of overbuilding in Houston, particularly in office space and different things, to where it has become very competitive over the years. And everybody was fighting.

Houston was going through its boomtown-type atmosphere. There was a lot of construction, but it was going very cheap. Houston is actually doing a little better in the markup of prices for general contractors like Schultz & Lembo than, say, Dallas is right now, because of all the contractors that have moved in all over the country to compete for prices on a very low dollar volume.

I think it is simply a result of the number of years and the competitiveness that the market got into. And it is a cycle. I think it will continue to get better over the next few years.

Mr. MITCHELL. Congressman Hayes.

Mr. HAYES. Just a brief question—I noticed that your company, Texas American Insurance Co., is one of the largest writers of SBA guaranteed bonds in region 6.

Mr. KNOX. Yes.

Mr. HAYES. If the worst should happen and the SBA would no longer be in existence, and you wouldn't have that pillow, Federal Government's assistance, would your company be able to write surety bonds? What would people do who have to have these kinds of bonds in order to go into business? If your company couldn't do it, where would new contractors turn?

Mr. KNOX. A certain number of the contractors that are currently in the program would, I believe, find some way, whether it was go out and get an audited statement they were never willing to do or something—a small percentage of them would, in my opinion, so to speak, get their act together and end up in the specialty market. That may be 10 percent or some percent that are in that market that I don't think should be there.

A certain percentage of them have enough assets that they may be able to put up some collateral with some of the specialty surety markets to continue to do some bond work.

I don't believe there is any place for the rest of them to go. Surety is not like insurance where you can charge a premium to take the risk. If it is not a good account, it—you can't just say, well, I will charge a 5-percent premium and we will write it, because you would never get the good ones; you would only get the ones that are probably on their way out.

And a contractor that is just starting in business, like Mr. Lembo did in 1980 that employs 60 people now, if he is going to do bonded work, he couldn't start out and do it. He started out as a commercial construction contractor.

He would not be able to have started that and built that without the ability to bond, and there is no other marketplace that he could go to at this point—at that point in time.

Mr. HAYES. So he just couldn't make it. Some minority businesses have contended that the inability to get bonding has been the cause of their not being able to get certain contracts or even go into business.

Mr. KNOX. Yes, sir.

Mr. HAYES. That is all.

Mr. MITCHELL. That is one of the reasons why I am a little bit ticked off with SBA about not selling its bonding program more aggressively. We hear too many horror stories about minorities in particular who can't get a contract because they don't have the bonding capacity.

When we hear them, then we steer them to SBA. By that time it is often too late.

Gentlemen, thank you very much for your testimony. Good luck in your business. Turn the overall business around and get it back on track, will you, please?

For our next panel, we will continue with small business investment companies. Mr. W. Allen Dark, who is the president of HyClone, Inc.; Mr. Richard Rothfeld, with the MESBIC Financial Corp.; Mr. Rodriguez, president of Copane Insulating Glass—gentlemen, if you will come right up and take a seat.

Thank you for taking your time to be with us today. We have tried to schedule witnesses at intervals so that you don't have to come and sit all day waiting for your turn to testify.

Mr. Dark, you want to lead off for us, please? We have copies of the statements from all three of you, and if you so desire, you can simply give highlights from your statement, or if you want to read it in its entirety, that is fine.

TESTIMONY OF W. ALLEN DARK, PRESIDENT, HYCLONE, INC., CONROE, TX

Mr. **Dark**. My company, HyClone, specializes in the application of plant tissue culture technology to the clonal propogation of plants. We operate production laboratories and greenhouses in Conroe, TX. We now produce a line of over 60 cultivars or varieties of plants which we ship all over the continental United States, and have shipped some to Hawaii and Alaska.

We now produce primarily greenhouse and nursery types of products. Our strategic plan is to become involved in other types of agricultural crops. That is in fact our main interest in the long range, including food-producing crops.

Our technology is an important part of the current wave of development of genetic work and we hope that it will provide a platform for us to become a major factor in improving agricultural crops.

The production process we use is very labor-intensive, which is common of many new technologies I think there is quite often misconception about the labor input in new technology in general, and I think tissue culture is representative of what often happens.

About 60 percent of our direct production costs are labor related. At this time we employ 63 people. These are production workers that we train basically from scratch, because they had no skills in our field when they came to us.

Our production employees are mostly entry-level workers, and we project to employ approximately 100 by the end of this year. Most of our capital has gone into facility up to this point. We have the ability to produce over 5 million cloned plants in a year facility wise, and we expect to produce over 2 million this year.

Startup capital for construction of our initial facility and to basically start our company from an empty field in Conroe came from an SBIC in Houston in 1981. A second round of financing was provided primarily by that SBIC plus three other SBIC's from the Houston area in 1983. We recently completed a third round of financing and all four of those SBIC's participated in it.

To date those four companies have invested a total of $1,325,000 of risk capital in our company.

The managers of those companies have also assisted us, primarily in the financing area and in developing a banking relationship with an unrelated bank. We now have loans of over $500,000.

They serve on the board of directors and I find them to be very useful on a number of corporate issues. They are just very valuable to me.

I feel that HyClone, the jobs that we have created, and the potential we have in this technological area would not have come into existence without the SBIC Program.

I feel it is important that our country have a strong effort to allocate a portion of our national financial resources to the development of new technology. I feel the SBIC Program has been very effective in that, and it is very significant.

[Mr. Dark's prepared statement follows:]

Prepared Statement of W. Allen Dark, President, HyClone, Inc., Conroe, TX

I am W. Allen Dark, Founder and President of HyClone, Inc.

HyClone, Inc. specializes in the commercial application of plant tissue culture technology to the clonal propagation of plants. From a tiny piece of plant tissue roughly the size of a pin head, we can produce thousands of cloned plants in approximately one year. We operate production laboratories and greenhouses in Conroe, Texas, and currently propagate a high quality line of over sixty varieties of plants which we ship to greenhouse and nursery growers all across the United States. We plan to begin cloning other types of agricultural crops, including food producing plants, during the next twelve months.

Our cloning technology is an important capability in terms of our corporate goal to become a major factor in the genetic improvement of the agricultural crops of the world.

Our production process is very labor intensive, as is common with many new technologies. Approximately sixty percent of our costs are labor related. We currently employ 63 people, the majority of whom are production workers we trained as they came to us with no technical training in our field. We expect to employ approximately 100 people by early 1985.

This year we plan to ship well over 2 million cloned plants and have in place the facility to produce over 5 million cloned plants in 1986.

Start-up capital for construction of our initial facility and operation was primarily provided by a SBIC in November, 1981. A second round of expansion funding was provided primarily by the initial SBIC plus three additional SBIC's in June, 1983. A third round of financing was provided in March, 1985 in total by the four SBIC's. These four SBIC's have now invested a total of $1,325,000 of risk capital.

The managers of these SBIC's have assisted in the development of a banking relationship and loans exceeding $500,000. In addition, they have provided valuable counsel on general corporate issues by serving as members of our Board of Directors.

The company, the new job opportunities we have created, and the potential we have to contribute to the improvement of the world's agricultural crops would probably have been impossible without the SBIC program.

We believe it is essential for our national security and quality of life to increase the proportion of our national resources allocated to the development and commercial application of new technology. The SBIC program has been effective and significant in directing resources toward this priority.

Mr. Mitchell. Thank you. We will come back to you.

Mr. Rothfeld and then Mr. Rodriguez.

TESTIMONY OF RICHARD ROTHFELD, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MESBIC FINANCIAL CORP. OF HOUSTON, HOUSTON, TX

Mr. ROTHFELD. Good afternoon, Mr. Chairman and Mr. Hayes. My name is Richard Rothfeld and I am president and chief executive officer of the MESBIC Financial Corp. of Houston.

Our MESBIC was licensed by the Small Business Administration in November 1976. Our stockholders consist of major corporations and banks doing business in the Houston market area. Since November 1976, our MESBIC has funded over $2 million in investment capital to various types of minority owned and operated companies. In my additional capacity as a director of the American Association of MESBIC's, I have an opportunity to speak to and interact with my peers and other duly licensed MESBIC's.

We feel that the MESBIC Program has served the minority community well and that its continuance is of utmost importance to further the advancement within the minority community.

At this time we would like to introduce Mr. Abel Rodriguez, president of Copane Insulating Glass, Inc., one of the minority owned and operated businesses in our portfolio, who will describe briefly his business and his experiences with our MESBIC.

Thank you, Mr. Chairman and Mr. Hayes. I would be happy to try and answer any questions which you may have.

Mr. MITCHELL. Thank you, sir.

Mr. Rodriguez.

TESTIMONY OF ABEL RODRIGUEZ, PRESIDENT, COPANE INSULATING GLASS, INC., HOUSTON, TX

Mr. RODRIGUEZ. Thank you, sir. Good afternoon, and I appreciate the opportunity to share my experiences and voice my opinion on this subject.

I am here in support of the Small Business Administration. As Mr. Rothfeld stated, my name is Abel Rodriguez. I am president of Copane Insulating Glass, Inc., a company that manufactures insulated glass, an energy conservation project. We service the construction industry, both residential and commercial. We have other products but this is our primary product, and the industry is completely depressed at this time.

My first involvement with MESBIC was when I saw turndown in industry and needed recapitalization in order to survive. Our background is not of importance, but my opinion that I feel very strongly that there is a need today in industry for the type of assistance offered by MESBIC, both in financing the small business and in management services.

This need exists for all business, not only minority business. The availability of the MESBIC personnel and the skills they possess to assist us small businesses in reviewing business opportunities, business situations, products, of course, finances affords we little guys the same type of big boy corporate structure type supports that which we can't afford.

Small businesspeople as myself already attempt to offer their operations to many skills that we actually don't possess at a high level of efficiency. We are very efficient in our technical product data, opening and closing our front door, and sweeping the floor better than anyone else.

The services offered by MESBIC complement the skills of the small businessman and I feel are very essential and necessary segment to a successful operation.

In my particular case with Copane Insulating Glass, MESBIC has offered me in the past 3 years a constant review of operations, not only products, but customers, suppliers, employees, in addition to financing.

I find them very sensitive to my individual needs and my operational needs. The long-term financing at an affordable rate tremendously benefited my company. There is a complete relaxed atmosphere in dealing with MESBIC.

They also provide us access to other business experts in specialized fields and they make a demand for administrative disciplines that I feel are very necessary to a successful operation.

In effect, I define the MESBIC loan and conditions as a type of capital investment. Their involvement in my operation, their feeling for my operation lead me to deal with them just as I would a vested investor.

And also as a partial vested investor they refer my operation to anything they come in contact with that is of benefit to my company, not just contracts, but suppliers, equipment.

They have also helped me with employees. MESBIC, in my opinion, not only approved a loan for my company, it made a commitment to assist in the success of my company. I enjoy this professional relationship and I feel that this relationship with MESBIC's loan terms have been a major contributing factor to the success of my company.

However, I don't want to give a wrong opinion. I do feel that these programs properly administered can be and should be self-sustaining. I do not favor small business that survives solely because it receives some type of preferential treatment in sales or in loans.

I do not feel that a business should survive just because it receives some type of handout. I feel that we small businesses only want an equal opportunity to make some type of quality product, to compete at a quality level, to meet some type of industry needs.

I personally want to employ more people; I did employ more at one time. I provide a relaxed atmosphere sensitive to my employees, closer to the product than the larger operations.

We in small business without the large management structure can operate more efficiently, can respond to industry more quickly.

In conclusion, I feel that it is very evident that a program as MESBIC's is vital and necessary in our industry. I personally want to go on record with this committee being in support of this type of program, and offer my comments and services to ensure their continuance.

Please consider me available to provide any additional data now or at a future date. Thank you for your efforts.

[Mr. Rodriguez' prepared statement follows:]

PREPARED STATEMENT OF ABEL RODRIGUEZ, PRESIDENT, COPANE INSULATING GLASS, INC., HOUSTON, TX

GOOD AFTERNOON MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE. I APPRECIATE YOUR EFFORTS IN THIS ENDEAVOR AND THE OPPORTUNITY TO SHARE EXPERIENCES AND EXPRESS MY OPINIONS ON THIS SUBJECT.

AS MR. ROTHFELD STATED MY NAME IS ABEL RODRIGUEZ, PRESIDENT OF COPANE INSULATING GLASS, INC., A COMPANY THAT MANUFACTURES INSULATED GLASS, AN ENERGY CONSERVATION PRODUCT, SERVICING THE CONSTRUCTION INDUSTRY --- BOTH RESIDENTIAL AND COMMERCIAL.

I WAS BORN IN MEXICO, AM 43 YEARS OLD, AND HAVE LIVED IN THE HOUSTON AREA FOR 37 YEARS.

MY BACKGROUND IS IN ADMINISTRATION AND MANAGEMENT, HAVING HELD VARIOUS POSITIONS IN INDUSTRY AT THE MANAGEMENT LEVEL. IN LATE 1979 I ACQUIRED AN OPERATION (A CORPORATION) WITH MINIMAL ANNUAL SALES AND PROFITS, HOUSED IN A 1,000 SQ.FT. BUILDING WITH NO EMPLOYEES, UNDER OWNER FINANCE TERMS.

WITH THE ADDITION OF PRODUCTS AND MORE SMALL OPERATION ACQUISITIONS, PRESENT OPERATIONS HAVE INCREASED IN EXCESS OF 600%, ARE NOW HOUSED IN A 12,400 SQ FT BUILDING WITH 7 EMPLOYEES, AND SALES ARE SUBSTANTIALLY DOWN FROM PREVIOUS PERIODS WHERE

EMPLOYEE LEVELS WERE AT 10.

I FEEL VERY STRONGLY THAT A NEED DOES EXIST IN INDUSTRY TODAY FOR THE TYPE OF ASSISTANCE OFFERED BY MESBIC, BOTH IN FINANCING TO SMALL BUSINESS AND IN MANAGEMENT SERVICES.

THIS NEED EXISTS FOR ALL BUSINESSES, NOT ONLY THOSE THAT ARE DEFINED AS MINORITY.

THE AVAILABILITY OF MESBIC PERSONNEL AND THE SKILLS THEY POSSESS TO ASSIST US IN REVIEWING BUSINESS OPPORTUNITIES, SITUATIONS, PRODUCTS, AND OF COURSE FINANCES, AFFORDS US LITTLE GUYS SOME OF THE BIG BOY CORPORATION STRUCTURE TYPE SUPPORT STAFF.

SMALL BUSINESS PERSONAL ALREADY ATTEMPT TO OFFER THEIR OPERATION AN EXCESS OF SKILLS, NOT POSSESSED AT A HIGH LEVEL OF EFFICIENCY, OUR ABILITIES ARE HIGHLY EFFICIENT TECHNICALLY IN OUR INDIVIDUAL PRODUCTS, OPENING AND CLOSING ON A RIGID TIME SCHEDULE, AND SWEEPING THE FLOOR. THE SERVICES OFFERED BY MESBIC COMPLIMENT OUR SKILLS AND ARE AN ESSENTIAL AND NECESSARY ASSET TO A SUCCESSFUL OPERATION.

IN MY PARTICULAR CASE MESBIC PROVIDES:

1) CONSTANT OPERATIONS REVIEW - PRODUCTS, CUSTOMERS, SUPPLIERS, EMPLOYEES, IN ADDITION TO FINANCIAL REVIEW.

2) SENSITIVITY TO MY INDIVIDUAL OPERATION AND MY OWN NEEDS

3) LONG TERM FINANCING AT AN AFFORDABLE RATE

4) AVAILABILITY OF EXPERT BUSINESS ADVICE

5) A RELAXED ATMOSPHERE IN WHICH TO CONDUCT BUSINESS

6) ACCESS TO OTHER BUSINESS EXPERTS IN SPECIALIZED FIELDS

7) DEMAND FOR ADMINISTRATIVE DISCIPLINES NECESSARY FOR A SUCCESSFUL OPERATION

THE MESBIC LOAN TERMS AND CONDITIONS ARE IN EFFECT A TYPE OF CAPITAL FINANCING. THE LONG TERM ASPECT OF THE LOAN SIGNIFICANTLY REDUCES MONTHLY CASH REQUIREMENTS, FREEING MORE CASH TO MEET DAILY OPERATIONAL NEEDS, VERY ESSENTIAL IN TODAYS MARKETS: AND THE CONSTANT CONTINUING REVIEW OF OPERATIONS OFFERS MY COMPANY THE SAME AFFECT OF A CAPITAL INVESTOR. ALSO, JUST AS A VESTED PARTIAL INVESTOR WOULD FUNCTION, MESBIC REFERS MY COMPANY TO ANY SITUATION OF BENEFIT IN POTENTIAL CONTACTS, SUPPLIERS, EMPLOYEES, AND EVEN EQUIPMENT. MESBIC NOT ONLY APPROVED A LOAN FOR COPANE, IT MADE A COMMITMENT TO THE SUCCESS OF MY COMPANY.

I ENJOY THIS PROFESSIONAL RELATIONSHIP WITH COPANE'S "SO CALLED BANKER" AND FEEL THIS RELATIONSHIP AND MESBIC'S LOAN TERMS HAVE BEEN A MAJOR CONTRIBUTING FACTOR TO MY COMPANY'S SUCCESS.

HOWEVER, IT IS MY OPINION, THAT THESE PROGRAMS PROPERLY ADMINISTERED CAN BE, AND SHOULD BE, SELF SUSTAINING. I DO NOT FAVOR SMALL BUSINESS THAT EXISTS OR SURVIVES SOLELY AS A RESULT OF SOME TYPE OF PREFERENTIAL TREATMENT IN SALES OR LOANS THAT RESULT IN A DRAIN OF OUR TAX DOLLAR. A SMALL BUSINESS SHOULD NOT SURVIVE JUST BECAUSE IT RECEIVES A HAND-OUT.

LET US SMALL BUSINESSES HAVE ONLY AN EQUAL OPPORTUNITY TO MAKE A QUALITY PRODUCT THAT MEETS A NEED. LET US EMPLOY PEOPLE IN A PLEASANT, MORE SENSITIVE WORKING ENVIRONMENT. LET US CONTRIBUTE TO OUR COMMUNITY. SMALL BUSINESS WITHOUT THE LARGE MANAGEMENT STRUCTURE CAN OPERATE VERY EFFICIENTLY AND RESPOND VERY QUICKLY TO MEET INDUSTRY NEED.

IT IS VERY EVIDENT THAT THE MESBIC PROGRAM PROVIDES A VITAL NECESSARY SERVICE TO THE BUSINESS COMMUNITY.

I PERSONALLY GO ON RECORD OF SUPPORTING THIS TYPE PROGRAM AND OFFER MY COMMENTS AND/OR SERVICES TO INSURE THEIR CONTINUANCE. PLEASE CONSIDER ME AVAILABLE TO PROVIDE ANY ADDITIONAL DATA THIS BODY MAY REQUIRE, NOW OR AT A FUTURE DATE.

THANK YOU FOR YOUR TIME AND EFFORTS ON THIS MUCH NEEDED SERVICE.

Mr. **Mitchell**. Thank you very much. Thank all three of you gentlemen.

Clarify for me what you meant by preferential treatment.

Mr. **Rodriguez**. I quote some city contracts where here in Houston we recently had a second bidder on a contract given the contract, not necessarily the lowest bidder, because he was a minority.

I don't seek a small business benefit or preferential treatment. I just seek an opportunity, as I feel all businesspeople should.

Mr. **Mitchell**. OK. How do you counter the argument of those who say that the MESBIC in and of itself is preferential treatment?

Mr. **Rodriguez**. How do I counter with that? I usually say, Mr. Chairman, I was born Mexican; I can't help it.

Mr. **Mitchell**. And Mr. Rothfeld.

Mr. **Rothfeld**. Yes, sir.

Mr. **Mitchell**. Let's face it. There are people who want to destroy all of these programs. Let's face that. One of the arguments they will raise is you have good SBIC's, small business investment companies. Why do you need a MESBIC operation separately? Why can't the SBIC's handle the minority business program just as well?

How do you answer that?

Mr. **Rothfeld**. I think the answer is in the history in the sense that the—not taking anything away from the straight SBIC's—I just don't think that the straight SBIC's handled the situation or granted the investment capital that was needed prior to the existence of the MESBIC industry, which came into being in 1970, if I remember correctly. SBIC's have been around since 1958. And I think the structure of the two is different.

Even though we are considered venture capital companies, I feel the spirit of our intent and how our intent should be is not the capital gains aspect. We are for profit as the SBIC is—straight SBIC or regular SBIC, but I think you can tell something from Mr. Rodriguez's remarks. He kept relating to loan money.

Sure; we would like to make venture capital deals and take part of the stock and get a bonus, et cetera, but that is not our prime concern—at least the Houston MESBIC's prime concern is not that way, and my experience with the rest of the industry is not that way. If it comes by, fine.

I don't know if I answered your question completely, but I just don't think that the SBIC industry prior to 1970, when the MESBIC got into being, really performed what we have been performing for the last 15 years.

Mr. **Mitchell**. I just have one question for you, Mr. Dark. How did you learn about SBIC?

Mr. **Dark**. From prior background experience I had with another corporation I was aware of venture capital investors of different types. The group that I have in Houston that invested in my company are well known in the area as top quality type investors, and they are probably four of the best SBIC's in Texas. It is not difficult to learn who the players are, once you are out looking to raise money.

Mr. **Mitchell**. They have been helpful to you. Based on your experience, would you be prepared to make any recommendations in terms of changes that should take place within the SBIC Program?

Mr. **Dark**. I think you need more SBIC's. In venture capital investing, my impression is that these people work awfully hard and they are usually stretched real thin. I am talking about the individuals.

By having more SBIC's—a larger number and more individuals in the program, I think you make it easier on those people to do a better job. A guy can only manage maybe five or six young companies before he is stretched too thin; so I would recommend that we have a great many more people involved in the SBIC Program.

Mr. **Mitchell**. I am sure you would recommend the same thing for MESBIC's.

Mr. **Rothfeld**. Absolutely.

Mr. **Hayes**. I don't have any questions.

Mr. **Mitchell**. Gentlemen, thank you very much. Good luck to you in your business.

Mr. **Rodriguez**. Thank you.

Mr. **Mitchell**. Our panel on the Surety Bond Guarantee Program consists of Ms. Toni Lawson, Mr. Bobby Knox, and Ms. Jimmie Sue Browning. If those witnesses would come up, please, and take seats.

Thank you very much for sacrificing and taking the time to be with us. I am the most democratic chairman in the Congress. You select who wants to lead off as the first witness.

TESTIMONY OF JIMMIE SUE BROWNING, BRANCH MANAGER, AMWEST SURETY INSURANCE CO., HOUSTON, TX

Ms. **Browning**. I suppose I should go first. I am Jimmie Sue Browning with Amwest Surety Insurance Co. Amwest is a specialty surety bond market domiciled in the State of California. Our Texas branch, which is located in Houston, is primarily a writer of construction contract bonds. As a specialty bond market, the accounts which we see are generally those who do not qualify for bonding through the conventional surety markets.

The small contractor who hasn't been bonded before or whose experience level is somewhat limited and does not meet the underwriting requirements of the conventional surety companies will find it very difficult and in some cases impossible to obtain bonding. This bonding capability or the lack of it will determine whether he can compete in the conventional public construction marketplace. Without that capability, he is excluded from Federal, State, and local government projects, and many of the private sector contracts where bonding is required.

The Small Business Administration, through its Surety Bond Guarantee Program, has opened the door to bonded construction projects for a group of contractors, which consists of small, young, minorities, emerging, or other disadvantaged contractors.

Amwest is relatively new in the Texas marketplace, having opened our Houston branch office in November 1983. In June 1984, we wrote our first bond through the Small Business Administration and subsequently in that 10-month period have introduced some 60 Texas contractors to the Surety Bond Guarantee Program. In each case, the contractor has received direct benefits, such as lower rates and no collateral requirements.

The majority of these contractors have annual sales of less than $1 million and have not been bonded prior to acceptance in the program. Those who have been bonded were obtaining their bonds through specialty surety companies, paying rates typically in excess of the 2 percent permitted by the Small Business Administration, and often being required to post security in the form of an irrevocable letter of credit or other collateral. In many cases, the large dollar amount of the required irrevocable letter of credit so tied up their banking credit as to almost ensure their inability to operate.

With the bonding now made available through the surety bond guarantee program, many of these contractors can now qualify to bid public work and are no longer barred from bidding bonded work in the private sector of the industry. On a whole, their sales and profits have increased and their potential for profitable growth is substantially increased.

The construction industry is today one of the most important segments of our economy. An important facet of that industry is the small contractor. We feel that without the surety bond guarantee program, many in this group of small, young, minority, emerging, or other disadvantaged contractors throughout the country simply will not have the opportunity to enter the mainstream of the construction industry.

We have here today two of the contractors that have made use of the program. Skyhawk Construction Co., Inc., is a corporation of which Toni Lawson is the president and sole stockholder. In Toni's case, she falls into several of the categories I mentioned above, in that being a female in a man's world of contractors, she is a minority. She is young; her company is small and emerging.

Knox Consolidated, Inc., has been in the program for only a short time. We wrote their first bond in July 1984 for a small contract to the Metropolitan Transit Authority of Houston.

Bobby Knox is president and he and his wife are sole stockholders of the corporation. And he, too, qualifies in several respects for the program.

Mr. MITCHELL. Thank you. We would like very much to hear from both of you.

TESTIMONY OF TONI A. LAWSON, PRESIDENT, SKYHAWK CONSTRUCTION CO., HOUSTON, TX

Ms. LAWSON. My name is Toni Lawson. I am both the president and sole owner of Skyhawk Construction Co., Inc. If I might, I would like to spend a few moments talking about myself and my business. I have been involved in the construction business at various levels for the past 12 years, of which the last 5 have been solely devoted to Skyhawk Construction. My own personal experience tends to be more in the area of contractor-owner relations and in cash management. My own philosophy of business is that if these areas are taken care of, the chance for increasing the profitability of any construction business is greatly enhanced.

Skyhawk Construction spent the first 2 years as a subcontractor and the business was profitable. At the end of the 2 years, I tried to obtain bonding in the conventional market, but was denied. The conventional surety market sets limits that for a small business are extremely hard to attain and if you do or can get in their minimum standards, their limits are so confining as to choke or drastically reduce growth. I was accepted into the SBA Surety Bond Program and it has allowed me to bid on small municipal and Government contracts. I think the fact that both the volume and the profit of this business has doubled in each of the last 3 years justifies the faith the SBA placed in me and should justify the benefits and usefulness of this program for all.

If it hadn't been for this particular SBA Program, it is an absolute fact that none of this could have been accomplished. Through the ability to bond my own work, I have been able to eliminate many of the pitfalls that can happen when subcontracting. I don't know how familiar you are with subcontracting, but at the least, it means you are one more step away from your money. Each step has become increasingly more difficult to get the money through, as everyone wants that money to sit 30 or so days in their interest-bearing account. It is very difficult for a small company to wait 60 to 90 days, because if you don't get consumed from behind by creditors, you get it from within by payroll and payments.

One of the most important benefits of the Small Business Administration Surety Bond Program is increased employment. My company has gone from an original 5 employees to as many as 25 and we hope to increase on that again this year. Many of these people have been unemployed for quite some time or are young and are having trouble breaking into the job market. Most of the new jobs that have been created have come from small businesses, all businesses like this one. This is the area that the SBA programs principally serve, and many have benefited from them. The benefits, of course, spill over to the Government itself through the increased revenues it collects in taxes and often times this creates less people the Government must help support through unemployment and various other programs.

To sum up, in today's market with its diversity of problems, only through money management and this program have I been able to succeed. I have hopes that through sustained growth, I will soon be able to advance into the conventional market, but I sincerely hope this program is continued in the future so that other qualified women or people may enjoy the opportunity that I have had.

Thank you.

Mr. MITCHELL. Thank you. Yes, Mr. Knox.

TESTIMONY OF BOBBY KNOX, PRESIDENT, KNOX CONSOLIDATED, INC., HOUSTON, TX

Mr. KNOX. Good afternoon. I would like to thank the SBA for inviting me to testify on behalf of Knox Consolidated, being a participant in the SBA-backed bonds.

I am just going to read my statement and add a little to it as I go. OK. Knox Consolidated, Inc., is a Houston-based minority business enterprise providing environmental design, general contracting, and construction management services to both public and private clients.

Knox Consolidated, Inc., was incorporated on August 25, 1983, by myself and my wife. Since then, we have more or less appreciated—I guess I can—running to'Amwest for telling us about the Bonding Program, because I didn't know such a program existed until we ran across Ms. Browning's organization.

I am a registered architect by profession with over 20 years of experience designing subway stations in Atlanta, and Baltimore, doing shipping terminals in Los Angeles, and people-mover systems in Los Angeles, and I can go on and on and on to include ice-skating rinks in Washington, DC.

So when I first came to Houston back in 1982, I saw a need for a good, strong, qualified, minority contractor, after dealing with some of the minority contractors as an architect. So I found that I had a problem, and that problem was getting bonded.

After making applications to several bonding companies, because of the fact that even though I was an architect, had done all these projects of tremendous scope, there was still no one out there willing to give us bond until I ran into Amwest, who told us about the SBA Bonding Program.

I guess I can go ahead and further say that we have become a very strong contractor in the city and there are people out there asking, who is Knox Consolidated? We do quality work and I can say that the SBA Bonding Program has given us a chance to more or less get our foot in the door and I feel that Knox Consolidated is qualified to do projects of any scope and size.

Right now, we are trying to build up our cash flow to get a level of credit to increase that bonding capacity. Hopefully, I am predicting that maybe by the end of this year, if all goes well, maybe we can graduate from the SBA Bonding Program and be part of the normal bonding procedure.

[Mr. Knox's prepared statement follows:]

PREPARED STATEMENT OF BOBBY KNOX, PRESIDENT, KNOX CONSOLIDATED, INC., HOUSTON, TX

Knox Consolidated, Inc. is a Houston-based minority business enterprise providing environmental design, general contracting, and construction management services to both public and private clients.

Knox Consolidated, Inc. was incorporated on August 25, 1983, by Bobby Knox, AIA, CSI and Paraluman G. Knox. Both Bobby and Paraluman G. Knox are shareholders, directors and officers of Knox Consolidated, Inc. and are responsible for the operations of the company. Bobby Knox, AIA, CSI, is a registered architect in six states and has over 20 years experience in the construction industry.

Management and contract performance began in January 1984. Award of first construction contract was made during the month of April 1984. This contract award was only made possible with the use of an SBA backed performance and payment bond issued through Amwest Surety Insurance Company, 2707 North Loop West, Suite 495, Houston, Texas 77008.

Prior to obtaining an SBA backed performance bond, Knox Consolidated, Inc. had contacted and made applications with several bonding companies. Our applications were rejected because of Knox Consolidated, Inc. being a new business start with no general contracting experiences.

To date, Knox Consolidated, Inc. has made application and received SBA backed bid and performance bonds. Use of the SBA bonding programming has given Knox Consolidated, Inc. the opportunity to provide general contracting services and obtain the necessary experiences to obtain bonds of suretyship on future large construction projects.

Mr. MITCHELL. You exude so much confidence, I think you are going to do it. That is the way you ought to be as a businessman.

I don't have any questions, except to try to figure out what rationales are going on in Washington vis-a-vis the SBA. Here we have heard testimony from the bonding people saying that because of a bad year they are way down, that the demand for SBA bonds will increase and now the administration is proposing to knock this program out altogether, not transfer it, not cut it back, but eliminate it.

And for the life of me I—I tell you what now. It is late in the afternoon. I am going back to college and take a course in logic to try to figure out where the logic is in some of these recommendations.

I could see it coming. I could possibly see an end to the SBA Bonding Program if a pact had been developed in the private sector that said we are going to set up some special consideration for new and small and minority businesses. Fine.

And then try that on a 1-year basis. If it works, then end the SBA program. But to just say we are going to end it, is almost nonsensical to me. I really don't have any questions. Maybe I need to take a glass of liquid refreshment—chocolate milk, or Pepsi Cola, or something like that to try to understand the rationale behind some of these things.

Congressman, do you have any questions?

Mr. HAYES. No questions. I will just comment that there are a lot of things that are done by people in the Government—I have found out in my short tenure—that doesn't border on logic. So don't look for that.

Thank you.

Mr. MITCHELL. Give me another source to pursue then.

Ms. BROWNING. May I make a comment?

Mr. MITCHELL. Sure.

Ms. BROWNING. You mentioned that you were worried about the program going out of operation and that that would put a lot of people out. These contractors that we see—we are putting as many of them as we can through the program, but there are many more out there that haven't found us yet that are wandering around that do not have bonding available.

And without the SBA Program, the small contractor not only won't grow; he will cease to exist.

Mr. MITCHELL. I think you heard me say earlier that absent this program there is nothing available. And if there is nothing available, where is the incentive to get into this kind of work?

Ms. LAWSON. It is not getting easier to find bonding in the conventional market; it is getting harder, too.

Mr. MITCHELL. Certainly that would relate to the testimony that we heard earlier.

Mr. HAYES. It seems, Mr. Chairman, very obvious to me this administration's attack on affirmative action is simply another manifestation of the consistency in this approach.

Here you have a woman in business that wouldn't be there if it wasn't for this kind of assistance who also is a minority in that business. And by the way, you aren't in the minority. You are in the majority. You are in the minority in the construction business. I just want you to understand. I agree with you.

They are being consistent in their approach here, I think. I just want to congratulate you for hanging in there. I am sorry I don't feel as optomistic as you do.

Mr. **Mitchell.** You are right. It is part of the anti-affirmative action posture, but really I see another problem developing and I hope I'm wrong. By eliminating support for small businesses across the board, aren't we continuing a policy of concentrating more and more power in the hands of the largest of the contracting companies, the largest of the banks, the largest of everything.

In my opinion, that will stifle economic growth in this country far more than anything else when you get too much economic wealth concentrated in the hands of fewer and fewer people. That is something I have nightmares about.

Ms. **Browning.** There has to be a step in between the small contractor and the large contractor that is able to go on his own and SBA has provided that step.

Mr. **Mitchell.** Right. And above and beyond that, there has got to be a constant open avenue for new small ones to come in.

Thank you very much for your contributions.

[Pause.]

Mr. **Mitchell.** Is Mr. Williams here?

[No response.]

Mr. **Mitchell.** Mr. Williams indicated he might not be able to make it, and in his absence, our hearing is concluded.

[Whereupon, at 1:45 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

SMALL BUSINESS ADMINISTRATION PROGRAMS REVIEW

(Part 2)

THURSDAY, APRIL 11, 1985

House of Representatives, Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems, Committee on Small Business,

New Orleans, LA.

The subcommittee met, pursuant to notice, at 9 a.m., in room 223, East Courtroom, U.S. Court of Appeals Building, 600 Camp Street, New Orleans, LA, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. Mitchell. This hearing will come to order.

As you know, the Small Business Committee of the House of Representatives is conducting field hearings all over the country with reference to President Reagan's proposal to dismantle the Small Business Administration.

I am Congressman Parren Mitchell, and I represent the Seventh District of Maryland, and I am chairman of the House Small Business Committee. It is my distinct pleasure to welcome the mayor of this wonderful city, Mayor Ernest Morial, who will join us for a brief time.

We know what your schedule is, an impossible schedule, and we are incredibly grateful you could take the time to be with us for a few moments this morning.

Let me thank you for all the kindnesses that you have shown us in preparation for this hearing, and the kindness you have shown us on a more personal basis, in letting some of the more renowned eating places be available to us here in New Orleans.

It is an honor, privilege, and a pleasure to welcome you to this hearing. Thank you for being here.

TESTIMONY OF HON. ERNEST N. MORIAL, MAYOR, CITY OF NEW ORLEANS, LA

Mr. Morial. Thank you very much, Congressman Mitchell, and certainly we in the city are honored by the presence of the House Committee on Small Business, and the fact that you decided on New Orleans to conduct one of a series of very important hearings on the Small Business Administration.

We take this opportunity to commend you and the committee for the quality and the degree of consistent and persistent leadership you have provided as an advocate of the small business person in this Nation.

As mayor of the city of New Orleans, I wish to again extend my warmest welcome to such a distinguished panel and to the members of the staff of this House committee.

As president of the U.S. Conference of Mayors, and as an advocate for a fair Federal budget, I also welcome this opportunity to speak about national funding priorities and the relationship of these to my home and other urban centers.

The mayors of this Nation are concerned about Federal budgetary proposals which would diminish or eliminate the Small Business Administration, the Economic Development Administration, general revenue sharing, community development, and other urban assistance programs.

Although the White House says these domestic budgetary reductions are part of a "second American revolution," cities are discovering this is not a revolution on our behalf, but rather a revolution against our best interests.

Exactly how counterproductive the Reagan budget proposals are for America's cities and this Nation's economic recovery is demonstrated by the results of a 157-city survey recently conducted by the U.S. Conference of Mayors.

For the record, I am submitting a copy of this survey, titled, "The Impact on America's Cities of the Administration's Federal Budget for Fiscal Year 1986."

Mr. MITCHELL. This will be incorporated as a part of the hearing record of this hearing in your city.

[The survey referred to above, follows:]

THE IMPACT on AMERICA'S CITIES of the ADMINISTRATION'S FEDERAL BUDGET for FISCAL YEAR 1986

MARCH 1985

United States Conference of Mayors

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United States Conference of Mayors

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INTRODUCTION

Background

The proposed federal budget for Fiscal Year 1986 was sent to Congress by the President on February 4. A detailed analysis of the budget document was published by the U.S. Conference of Mayors on February 7. That analysis indicated that the budget "proposes to eliminate or sharply reduce nearly every federal urban program of significant benefit to cities."

The Administration's budget proposal contains significant increases in defense spending on one hand, and significant decreases in domestic spending on the other. For FY86, grants to states and localities would drop by $20 billion, or 18 percent. Using FY81 as a base year, federal grants to state and local governments, after accounting for inflation, will have dropped 50 percent by FY86. For the key federal programs of direct benefit to cities, the drop from FY81 to FY86 would be 80 percent in real dollars, not accounting for inflation.

In a press conference called to release the federal budget analysis, New Orleans Mayor Ernest Morial, President of the Conference of Mayors, highlighted the proposed actions of greatest concern:

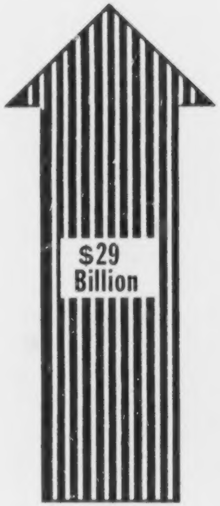
- "The General Revenue Sharing program would be eliminated in Fiscal '86. Revenue Sharing is a fundamental component of most city budgets. Its loss would trigger wide-ranging and disruptive cuts in the most basic public services, such as police and fire protection, and would force some local tax increases. The proposal to end revenue sharing next year comes as a shock to mayors who believed that the Administration would stand behind this program.

- "Community Development Block Grants would be reduced by about 23 percent for entitlement cities. This would occur as a result of cuts and modifications in the way funds are distributed to cities. These funds are considered essential by the cities which use them in so many ways to develop neighborhoods and create new opportunities for our citizens.

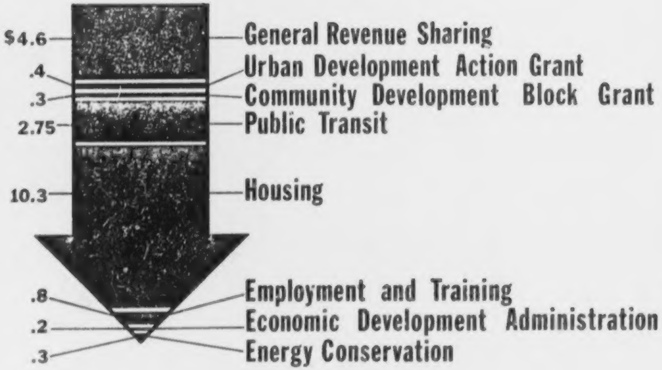
- "Urban Development Action Grants would be eliminated. These grants are tested, effective tools to leverage large amounts of private development money in our cities. Each UDAG dollar stimulates $6 in private investment at the local level.

- "Housing assistance funds would be cut from nearly $11 billion this year to less than a half-billion dollars next year, and there would be no new housing assistance funds of any kind for next year or the year after. Our low income and elderly citizens would be hard hit by this proposal.

THE PROPOSED FY86
DEFENSE BUDGET
INCREASE...



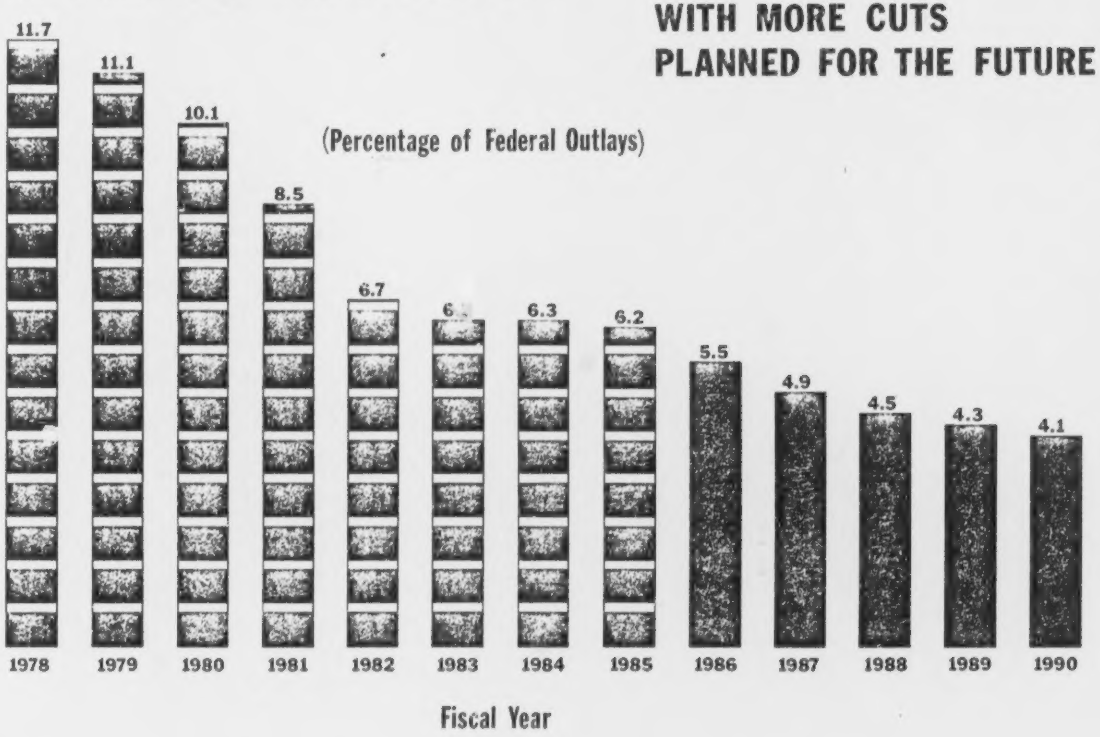
IS ALMOST EQUALED
BY PROPOSED CUTS IN
KEY CITY PROGRAMS



Source: U.S. Budget

FEDERAL ASSISTANCE TO CITIES AND STATES HAS DECLINED SHARPLY AS A SHARE OF THE BUDGET . . .

WITH MORE CUTS PLANNED FOR THE FUTURE



Source: U.S. Budget

- "Public transit would be cut $2.75 billion -- two thirds of the total federal effort. The public transit block grant which provides most capital and operating assistance would be completely eliminated, resulting in service cuts and some shutdowns in cities.

- "Youth and jobs programs would be cut several ways. Summer jobs for disadvantaged youth would be cut in this Fiscal Year and again in Fiscal '86. About $900 million would be cut from the Job Training Partnership Act. The Job Corps, the Work Incentive program and others would be eliminated altogether.

- "Direct loan programs would be cut in half, a credit loss of nearly $28 billion. The Small Business Administration, the Economic Development Administration and other major programs would be completely eliminated. Low rent public housing loans would drop from over $14 billion to less than $2 billion.

- "A $4 billion Medicare cut and a $1.1 billion Medicaid cut would place heavy burdens on those needing health care and on the cities responsible for Medicaid, public hospitals and other health services.

- "Despite increasing numbers of hungry and homeless citizens, and despite increasing demand for emergency human services, there would be no funds to continue the emergency food and shelter programs, and special commodity distribution programs would be discontinued as well."

The Survey

Because of the scope and the depth of the budget actions proposed by the Administration, Mayor Morial, following consultation with the organization's Executive Committee, directed the Conference of Mayors staff to assess the impact that the proposals would have on cities across the country.

On February 15 a questionnaire was mailed to a sample of more than 400 mayors of cities over 30,000 in population -- about half of all cities this size in the nation. The Conference of Mayors represents cities of 30,000 and above.

The questionnaire sought information on impact of proposed program terminations and cuts in nine areas:

- General Revenue Sharing
- Community Development Block Grants
- Urban Development Action Grants
- Public Transit
- Wastewater Treatment Construction Grants
- Assisted Housing
- Loan Programs
- Employment and Training
- Health

MOST MAJOR CITY PROGRAMS ARE ELIMINATED OR GREATLY CURTAILED BY THE PROPOSED FY86 BUDGET

General Revenue Sharing

Urban Development Action Grants

Economic Development Administration

Job Corps

Housing Rehabilitation

Low-Income Housing

} ELIMINATED

Community Development Block Grant -- 10% CUT, plus

Public Transportation -- 66% CUT

Employment and Training -- 22% CUT

Energy Conservation -- 88% CUT

Source: U.S. Budget

It also sought information on:

- Ability of city governments to raise local revenues to compensate for federal budget actions;
- Likelihood that state governments would provide funds to compensate for federal cuts;
- Current surplus/deficit situation in city budgets;
- Impact of Treasury Department tax reform proposals on city projects and services.

Mayors were asked to return completed questionnaires to the Conference by February 25; data were accepted by the Conference through March 4. A total of 157 cities responded to the survey. The responses came from cities in 42 states and Puerto Rico, and from the District of Columbia.

Summary of Findings

The sections which follow in this document present the findings of the survey in each of the program, revenue and tax areas listed above. Following are highlights of these findings.

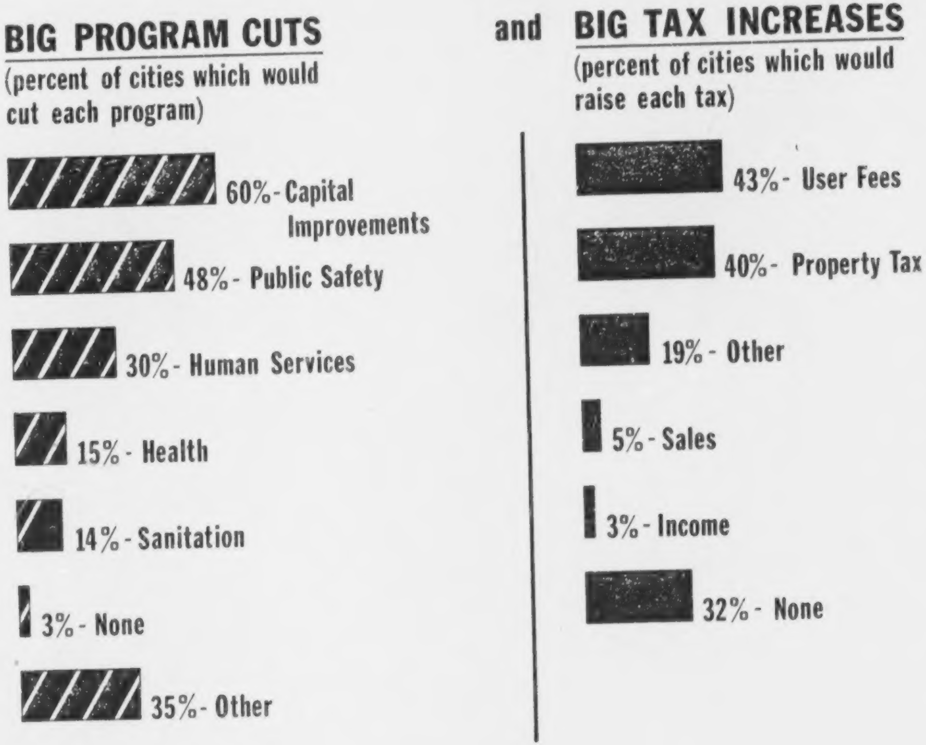
General Revenue Sharing

If General Revenue Sharing is eliminated as proposed in FY86, 97 percent of the cities responding to the survey would cut services. Capital improvements would be cut by 60 percent of the cities; public safety would be cut by 48 percent. In addition, 68 percent of the respondents predicted some type of local revenue increase to compensate for the loss of the revenue sharing funds. In 43 percent of the cities user fees would be increased; 40 percent would increase property taxes. Only five percent of the cities expect any state aid to compensate for the revenue sharing loss.

Community Development Block Grants

A 23 percent cut for Community Development Block Grant entitlement cities would result from the Administration's proposed cut of 10 percent in CDBG funds and proposed shift in entitlement cities/small cities funding ratio from 70:30 to 60:40. Almost 93 percent of the respondents said these proposals would have either an adverse effect or a very adverse effect on their cities. While over 31 percent of the cities would make across-the-board cuts in all areas for which CDBG funds are used, most cities -- more than two out of three --would cut housing programs, and about 54 percent would cut public works and infrastructure improvements.

ELIMINATION OF GENERAL REVENUE SHARING MEANS....



Urban Development Action Grants

For 70 of the cities responding to the survey, an estimated 102,000 jobs and nearly $4.3 billion in investment will be lost if Urban Development Action Grants are eliminated as proposed in FY86. Of the 292 UDAG projects now being planned in these cities, only nine would go forward without UDAG funding. Nearly three out of every four respondents said the loss of UDAG would have an adverse or very adverse effect on their cities.

Public Transit

The proposed FY86 budget calls for a two-thirds reduction in transit assistance, including a total elimination of federal operating assistance and a rise in the local matching share required by the federal government. Among the cities responding to the transit question, 83 percent said that fares will increase if the federal assistance is cut. Of the cities predicting fare increases, 19 percent say that fares will at least double; another 17 percent would increase fares by more than half. In addition, three out of four cities would reduce their vehicle fleets, and 70 percent would eliminate some public transit routes. While overall transit service would decline significantly in most cities, nearly 39 percent of the respondents said that their systems would be threatened with shutdowns.

Wastewater Treatment Construction Grants

The Administration is proposing a four-year phaseout of wastewater construction grants, with a likely 25 percent reduction in each of the next four years. Almost 36 percent of the respondents said they would be unable to complete existing wastewater treatment facilities in their cities if the phaseout goes through. About half of the cities are under court order, consent decree or other binding contract to build new plants or finish existing ones in order to meet 1988 clean water standards. Sixty percent of these will not be able to meet these obligations without a significant increase in taxes or user fees.

Assisted Housing

The budget for FY86 proposes a moratorium on all new units of assisted housing. Over 88 percent of the respondents said the availability of housing affordable by low income people would be either adversely or very adversely affected by the moratorium. The proposed one-year elimination of funds for modernization would have an adverse or very adverse effect in nearly 78 percent of the responding cities. For 93 percent of the cities, waiting lists for assisted housing would lengthen because of the moratorium. On average, the waiting list for Section 8 units is more than 2 years, for Section 202 units, 18 months; for public housing units, almost two years.

IF THE PROPOSED FY86 BUDGET CUTS ARE APPROVED....

96% of planned projects based on UDAG funding will not go forward...	↓	...with a loss of 102,000 jobs and $4.3 billion in investment
83% of cities will raise transit fares...	↑	...with 36% of fares rising more than half
70% of cities will experience cuts in health services...	↓	...with many to experience shifts in costs to local health departments
60% of cities would have to raise taxes to meet wastewater needs...	↑	...with 43% rising more than 25%
More than 93% of cities will be adversely or very adversely impacted by the CDBG cut...	↓	...with major impacts in housing, public works and economic development
Youth unemployment will rise...	↑	...with more than 37,000 kids forced from the summer jobs programs

Loan Programs

As proposed in the FY86 budget, the elimination of Section 312 rehabilitation loans, Section 108 community development loan guarantees, the Small Business Administration's loan programs and the Economic Development Administration's loan and grant programs would adversely or *very* adversely affect over 83 percent of the cities responding. Section 312 loans totaling nearly $34 million and involving well over 3500 housing units were used last year by 57.5 percent of the respondents. Section 108 loan guarantees were used by 17.5 percent of the cities. EDA loans and grants totaling more than $38 million went to 44.4 percent of the cities.

Employment and Training

Over 80 percent of the respondents said the proposed elimination of the Job Corps and cuts in the summer youth employment program and dislocated worker program would have an adverse or *very* adverse effect on their cities. Over 37,000 young people in 77 survey cities would be removed from jobs programs this summer by the proposed recission of $100 million in summer funds. In more than four out of five of these cities, alternative services will not be available for the young people who are affected.

Health

The Administration's proposal to cut the Medicaid program, capping federal matching payments to the states, will reduce locally available health services or the number of people who receive health care in 70 percent of the cities responding; in almost all of these cities, both services *and* people served would be cut. The proposal to freeze health block grants and reduce funding for various other health programs would trigger an increase in sexually transmitted disease in two out of three cities responding. Childhood disease rates would be expected to increase in 64 percent of the cities, infant mortality rates in 62 percent and tuberculosis rates in 60 percent. More than half of the cities would expect an increase in all four of these health indicators.

City Revenues

Over half of the cities responding say they would have to raise local revenues to compensate for proposed cuts in the federal budget. Most of those that would not raise revenues are constrained from doing so by state law, have high tax burdens already, or believe that approval of increases by voters, city councils or state legislators is unlikely. Increases in property taxes and user fees would be sought by most of the cities to compensate for federal aid losses in key urban programs.

State Aid

A total of 85 percent of the cities responding say they expect no additional funds from their states to compensate for the proposed federal budget cuts.

City Fiscal Conditions

More than nine out of 10 of the responding cities were forced to raise revenues or reduce services last year in order to balance their budgets. Nearly half raised user fees, 41 percent laid off workers or instituted hiring freezes, 40 percent cut services and 28 percent increased property taxes. Two out of three of the survey cities forecasting budget surpluses this year have already committed the funds to ongoing services or to the pay-back of prior year deficits.

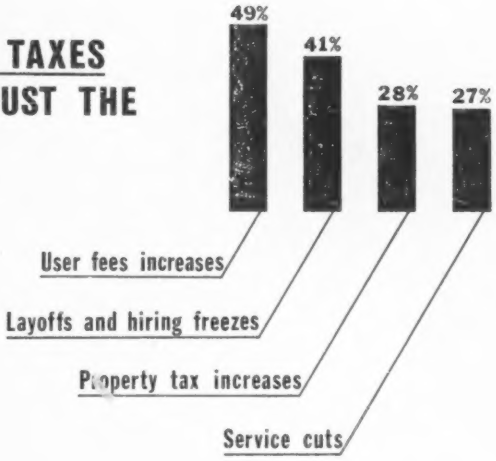
Treasury Department Tax Proposals

The response to the Treasury Department's proposed curbs on "private purpose" municipal bonds is almost completely negative, with all but one survey city citing at least one project or effort that would be negatively affected. For 87 percent of the respondents, the proposed elimination of the deductability of state and local taxes would make it very difficult to raise local taxes, would lead to declining real estate values, or would have other negative effects.

Appendices

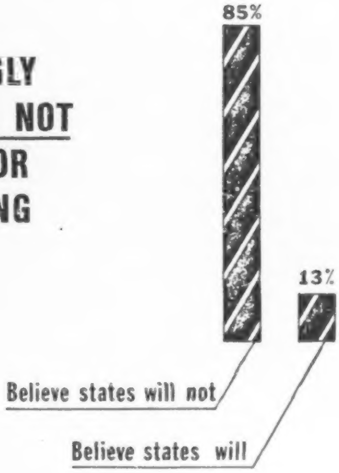
The questionnaire used in the survey is included in Appendix A Appendix B contains specific responses to selected questions for 50 of the survey cities. Appendix C contains a list of the cities responding to the survey and the 1980 Census Bureau population counts for them.

CITIES HAVE RAISED TAXES AND CUT COSTS IN JUST THE LAST YEAR....



and

CITIES OVERWHELMINGLY BELIEVE STATES WILL NOT COMPENSATE THEM FOR LOST FEDERAL FUNDING



GENERAL REVENUE SHARING

The overwhelming majority of cities responding to the survey predict major local budget cuts and tax increases if general revenue sharing is eliminated. Since 1972, revenue sharing has been incorporated into local budgets in an integral fashion, with cities using the funding for public safety, a variety of human services programs and many other vital city efforts. For survey cities, it ranges as a percent of city budgets from one to 25 percent.

Local Budget Cuts

A total of 97 percent of the respondents predict cuts in services if revenue sharing is lost.

- 60 percent say they would cut capital improvements
- 48 percent would cut public safety
- 32 percent would cut human services
- 15 percent would cut health services
- 14 percent would cut sanitation

In addition, 35 percent listed other major adjustments in expenditure levels -- cutting street and building maintenance, education programs, downtown development efforts, and transit; laying off workers and making across-the-board reductions in programs.

Local Tax Increases

Cities also said they would have to enact revenue increases to compensate in whole or in part for the elimination of revenue sharing. A total of 68 percent predicted some type of increases.

- 43 percent said that user fees would be increased
- 40 percent would increase property taxes
- five percent would increase sales taxes
- three percent would increase income taxes

Most cities do not have the authority to impose sales or income taxes.

In addition, 19 percent cited other major revenue adjustments -- increasing franchise taxes, permits and fines, utility taxes, license fees, business taxes, hotel taxes and the like.

Among the 32 percent of cities who said they would not raise taxes, many explained they could not because of state tax limitations, already very high tax burdens or the unlikelihood of getting council or public approval.

Finally, many cities volunteered other changes they thought they would be forced to make -- increasing debt financing, contracting more services to the private sector, deferring capital expenditures and personnel cuts, among others.

In response to the question as to whether cities expect any state aid to compensate for the loss of revenue sharing, fully 94 percent of the cities say they do not expect any such help. Only five percent predict that the state will reimburse them for any of the revenue sharing cut. Of the seven cities that said the state might help, most did not predict a percentage; in general, those who did believed the aid would be quite low.

COMMUNITY DEVELOPMENT BLOCK GRANT

Almost 93 percent of the cities responding indicate that the proposed 10 percent cut in Community Development Block Grant funds and change in the entitlement cities/small cities ratio from 70:30 to 60:40 would have either an adverse or very adverse effect.* Together the 10 percent cut and the ratio change would mean a 23 percent cut for entitlement cities and a possible 10 percent cut for small cities. Three cities report the effect would be minimal. Seven say there would be no effect. At least three of these do not now receive CDBG funds, however.

For a number of cities the proposed cut comes on top of other reductions in their CDBG allocation in recent years. Baton Rouge indicates its allocation has dropped $250,000 over the last three to four years. Milwaukee has already absorbed a $5 million cut in its CDBG allocation.

Peoria officials report that "community and economic development activities will be curtailed during a time of high unemployment and economic dislocation." For Washington, D.C., CDBG funds have been used to "provide assistance to those who need help. Gains made in the past would be affected and new improvements will not be available." Officials in Orem, Utah expect the major impact will be on "people programs." In Grand Forks the recent direction of the city's economic development efforts -- a new foreign trade zone -- would be changed significantly and the city's ability to create jobs would be particularly affected.

Tacoma reports that the proposed cuts would result in a loss of jobs (public and private), elimination or reduction of funding to agencies providing public services, and great difficulty in leveraging private investment. In Charleston, South Carolina "the two most run-down areas of the city have received substantial assistance in housing rehabilitation and job creation through the CDBG program....Since there is no way to raise sufficient local funding, neighborhood revitalization programs will deteriorate and begin regressing." Chicago officials report the cut would require them to close a health center, eliminate infrastructure improvements and postpone rehabilitation of 1250 housing units. Annapolis officials explain that "funds have already been targeted to construction of a badly needed senior center. Cuts will, at best, delay construction substantially and, at worst, extinguish the concept altogether."

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* Entitlement cities include cities of 50,000 population and above, the central city of a Standard Metropolitan Statistical Area, urban counties, and some cities "grandfathered" in that had entitlement status and lost it due to population changes.

URBAN DEVELOPMENT ACTION GRANT

An estimated 102,000 jobs and nearly $4.3 billion in investment in projects now being planned in 70 of the cities responding to this survey will not be realized if Urban Development Action Grants are eliminated. Of the 292 UDAG projects being planned in the cities, only nine are expected to go forward without UDAG funding. These that would not go ahead without UDAG funding involve an estimated $728 million in UDAG funds, $200.9 million in other public funds, and $3.6 billion in private investment, and would create or retain an estimated 102,000 jobs.

The elimination of Urban Development Action Grants in FY86 would result in an adverse or very adverse effect in nearly three out of every four cities responding. Thirty-seven cities (26.4 percent) would feel no effect, but at least 30 of these are not eligible for the program or have been unable to receive grants with the current highly-targeted selection criteria.

Several cities report on the contribution that prior UDAG projects have made to economic development and the local economy in their cities. In Asheville, North Carolina, tax valuations have increased by approximately $23.6 million. Tacoma has received five UDAGs for a total of $10.5 million, resulting in $82.4 million in private investment and $500,000 in new taxes. In Milwaukee the UDAG program "has been responsible for leveraging over $250 million in private investment, generating new local tax revenues and creating nearly 5000 new permanent jobs."

Beaumont, Birmingham, Davenport, and Peoria all discuss how crucial UDAGs are to their downtown development. In Davenport two downtown projects hinge on UDAG grants. Peoria officials report that "the city's plan for rebuilding its downtown and strengthening the devastated local economy would lose the major projects to achieve development success."

Syracuse reports that "virtually no other funding source for large new construction projects" exists. Flint points out that without UDAG "development activity would cease because only Fortune 500 companies or high income projects can support development at conventional interest rates." Jersey City officials, who term the elimination of UDAG "very, very, very adverse" for their city, are concerned that potential developers would be scared away. Louisville explains that blighted areas will have no gap financing as incentives for development. Evansville has "a number of vacant or under utilized industrial facilities for which UDAG-type funding is essential for the projects to be financially feasible."

Erie sees Urban Development Action Grants as "very important leveraging tools for major revitalization and economic development projects involving public/private partnerships." In Akron, UDAGs "are an essential part of the proposed financing of many major economic development projects....Many past developments would not have occurred without UDAGs." Baton Rouge officials state that the elimination of UDAG "would substantially undercut our abilities to leverage redevelopment efforts particularly in downtown and the inner city. Local governmental financing to fill this development gap is totally insufficient to address this revitalization effort in any meaningful way."

State Restorations

Only two cities expect their state governments to provide funds to compensate for the elimination of the UDAG program.

PUBLIC TRANSIT

Based on the survey, cities face sharply higher transit fares, fewer transit vehicles, reduced service -- and in a substantial number of cases, shutdown of their transit system -- if the Administration's proposed FY86 transit budget is enacted.

The Administration seeks a two-thirds cut in the nation's program of transit assistance. Under its proposal, the transit formula block grant program -- appropriated at $2.4 billion in FY85, would be completely eliminated. The one-cent federal gasoline tax, which yields $1.1 billion annually earmarked for transit discretionary expenditures, would be all that would remain under this proposal. Under the Administration's plan, it would be distributed by formula, replacing the current formula program. But even after this two-thirds reduction, no funding would be permitted for operating assistance or new rail starts. The required local match would rise from 20 to 30 percent.

The impacts of this proposal on cities would be stark. Although most transit in cities is operated by regional transit authorities and not by cities directly, 75 percent of cities responding to this survey were able to provide information regarding impacts on transit in their cities.

Fare Increases

Of the cities responding in the transit area, 83 percent report that fares will increase if the transit cut is passed.

Not every city can specify the precise range of the fare increase, but some 65 percent can now predict the range of increase, and these results indicate that very high transit increases would be forthcoming, as the figures below indicate:

Transit Fare Increases

Percentage Increase	Percentage of Cities Predicting Increases
1-25%	28.1%
26-50%	35.9%
51-100%	17.2%
101%-Above	18.8%

Almost 40 percent of the cities predict an increase of at least 50 percent, and about one out of five indicate that fares would at least double.

Vehicles Reductions

The proposed transit cut, which would completely eliminate operating assistance, would substantially reduce the number of transit vehicles in service. With less money to operate systems, and far fewer funds to replace worn out vehicles, cities will simply reduce fleets. Of those cities providing transit information, some 75 percent would be forced to reduce vehicle fleets, causing greater waits for service and more transit crowding and congestion, thereby reducing the overall quality of transit service.

Route Reductions

In addition to vehicle reductions, a large proportion of cities would be required to eliminate specific routes if the proposal was approved. More than 70 percent of the cities providing transit information fall into this category. Thus, whole neighborhoods or sections of cities could find transit service markedly diminished.

Service Reductions

Of those responding in the transit area, some 69 percent would be required to reduce overall transit service. But the percentage of service reduction which would be required is also revealing, as the figures below indicate:

Transit Service Reduction

Percentage Reduction	Percentage of Cities Predicting Service Reduction
1-25%	54.9%
26-50%	30.5%
51-75%	9.8%
76-100%	4.9%

All reductions of transit service have potentially serious impacts in cities. With more than 45 percent of the cities predicting overall service cut-backs of more than 25%, the mobility of U.S. transit riders is in jeopardy.

Threat of Shutdown

If the proposed transit budget cuts were enacted, most cities would deal with them through a combination of the above -- fare increases, and vehicle, route and service reductions. But for a sizable portion of cities, those measures would be insufficient to sustain their systems. Indeed, of those cities providing transit information, 38.6 percent report that their systems would be threatened with a shutdown.

New State Assistance

While the role of states in funding public transit has gradually increased in recent years, there is no belief among cities that additional state aid will be forthcoming in this area should the Administration's budget proposal be enacted. Less than eight percent anticipate new state transit aid.

WASTEWATER TREATMENT

Vastly increased local taxes and user fees, and threats to housing, community and economic development, jobs and environmental quality are anticipated in cities should the Administration's wastewater treatment proposal be enacted. The Administration proposes to phase out the $2.4 billion dollar wastewater treatment construction grants program over four years, ending eligibility now for new projects. The wastewater program, cut in half in FY81, helps cities meet federal standards under the Clean Water Act.

In most cases, metropolitan sewerage agencies, rather than the cities themselves, build and operate wastewater treatment plants. However, some 72 percent of those cities responding to the survey were able to give detailed information regarding the impact of the Administration's proposal.

Prospects for Completion of Projects

Of those cities, almost 36 percent would be unable to complete existing projects in four years if the budget proposal is enacted. With no federal assistance remaining, many cities across the nation would be left with unfinished wastewater treatment plants.

Court Orders and Decrees

Although federal funding may expire, to comply with 1988 clean water standards, many cities must finish existing plants or construct new plants because of judicial consent decrees, administrative orders or other binding contractual agreements. Of those cities providing wastewater information, 49 percent are in this category.

Tax/User Fee Increases

A clear majority of cities responding will not be able to meet their wastewater obligations without a significant increase in taxes or user fees. Indeed, 60 percent would be required to resort to significant tax increases or user fee increases to meet this obligation. The range of this local tax increase or user fee increase is difficult for most cities to currently estimate. However, some 43 percent are prepared to estimate the increases now as the figures below indicate:

Tax/User Fee Increases to Meet Wastewater Needs

Percentage Increase	Percentage of Cities Predicting Increases
1-25%	57.1%
26-50%	22.4%
51-75%	2.0%
76-100%	8.2%
100%-Above	10.2%

Thus, almost 43 percent of these cities predict tax or user fee increases of more than 25% to meet wastewater needs.

Impacts of Inability to Meet Needs

If cities cannot complete existing projects or construct new projects, this will have significant effects on housing, community development, economic development, jobs and environment quality. Wastewater treatment capacity is an essential element to achieving each of these key urban goals.

Not all cities can now provide information in this area. But of those providing wastewater information, 65 percent did provide information on the nature of these impacts. That information is summarized in the figures below.

Impact of Inability to Meet Wastewater Needs

Areas of Impact	Percentage of Cities Predicting this Impact
Housing	63.5%
Community Development	68.9%
Economic Development	77.0%
Jobs	68.9%
Environmental Quality	94.6%

Virtually all cities in this category reported multiple impacts from a failure to meet wastewater needs.

State Aid

Although funding for wastewater treatment is passed by the federal government to cities through state governments, less then four percent of cities providing wastewater information anticipate increased aid from states in this area.

ASSISTED HOUSING

Waiting lists for assisted housing are expected to lengthen in 93 percent of the cities responding, and the proposed moratorium on all new units of assisted housing will have an adverse or very adverse effect on the availability of housing affordable by low income people in nearly nine out of every 10 cities responding. Nearly one-half (46 percent) of the cities expect the effect to be very adverse; another 42.3 percent of the cities expect the effect to be adverse. Sixteen cities indicate there will be no impact.

Among the cities responding to the housing questions, 32,984 units of federally assisted housing were allocated during FY84. These include 16,175 Section 8, units, 2,494 Section 202 units, 5,344 public housing units, and 8,971 units under the rental rehabilitation program.

Units Needed

The number of new assisted units that cities need varies significantly. Evansville cites a need of 100 units annually. Caguas, Puerto Rico reports that "over 500 units of housing are needed each year to compensate housing needs in our community. Without this assistance affordable housing would be greatly affected." San Juan "has a present demand of 20,000 housing units per year. This coupled with 47.4 percent of the families below the poverty level (1980) in San Juan makes this proposal very detrimental for our city." Charleston officials comment: "Elimination of the funds would keep us from adding new units. We currently have over 1800 families on the waiting list. The two year moratorium of subsidies may make the projects unattractive for private developers." In Kansas City "the Section 8 program is about 2000 households. A moratorium on housing assistance will exacerbate this problem."

Growth Cities

Two growing cities point out particular housing needs. Reno explains that "because of current expansion in the casino industry, which employs large numbers of low income staff, there will not be housing available to meet needs." Tempe is experiencing rapid population growth, with a concomitant need for an increase in assisted housing.

Discussing assisted housing, Honolulu officials state: "That's one of our highest priority items -- a big problem already. We need more -- not less -- low income housing." Hayward officials point out that "Section 8 is the ONLY means of helping the 'truly needy' -- disabled, elderly, women and children who have been abandoned." Finally, "Grand Forks already has a long waiting list for assisted housing. Cuts in this program would impact low income people who cannot afford safe and decent housing. It would also seriously affect our efforts to revitalize the central business district through rehabilitation of existing units," according to officials in that city.

Public Housing Modernization

The one year elimination of funds for modernizing public housing projects, with limited funds available only for emergencies, would have an adverse effect on 43.2 percent of the cities responding and a very adverse effect on another 33.3 percent. Thirty-three cities (23.4 percent) report that the proposal would have no effect on their public housing.

Waiting Lists

The proposed moratorium would lengthen the waiting lists for assisted housing in 93 percent of the cities responding.

The average waiting list for Section 8 units in the cities responding is 26.3 months. Twenty-nine cities have a wait for Section 8 of three years or more. Miami and Rockford each report waiting lists of 12 years. Only seven cities have waiting lists for Section 8 of six months or less.

The average waiting list for Section 202 is 18 months. Twenty cities have a wait of 24 months or more for this program. Jamestown tops the list with a wait of 60 months, with Oak Park, Michigan, Reno and San Francisco following with 36-month waits. Twenty-one cities have a wait for 202 housing of six months or less.

For public housing the average waiting list is 23.9 months. Fourteen cities have a wait of 36 months or more for public housing, with a 10-year wait in Washington, D.C., and 106 months in Mankato, Minnesota. Seventeen cities have a waiting list of six months or less for public housing.

Housing Development Action Grants

Forty-one of the survey cities are currently planning a total of 91 projects for Housing Development Action Grants. These projects would add over 8,992 units to the existing housing stock, with 46.9 percent of them, on average, for low income people.

State Restrictions

Only four cities expect their state governments to provide funds to compensate for the proposed federal moratorium on new units of assisted housing.

LOAN PROGRAMS

The effect of the elimination of Section 312 rehabilitation loans, Section 108 loan guarantees, the Small Business Administration's loan programs and the loan and grant programs of the Economic Development Administration would be adverse in 44.2 percent of the cities responding to the survey, and very adverse in another 39.1 percent. While 23 cities indicate the elimination of these programs would have no effect, only five of these cities -- Cedar Rapids, Columbus, Dallas, Iowa City and Sunrise, Florida -- have used any of the loan programs in the last year.

Comments by the cities responding show the varied uses and the importance of these loan programs:

- Akron: "Housing rehabilitation, business loans and economic development will be severely cut back. This will have a strong negative effect on the city."
- Asheville, North Carolina: "Over 125 homeowners have been assisted with Section 312 funds over recent years. The SBA 503 program has assisted five local businesses; three loans are pending."
- Beaumont: "We use them all and rely on them."
- East Chicago: "It would curtail the city's ability to assist owners in providing standard housing for low and moderate income residents.
- Erie: "Housing rehabilitation and small business would be drastically affected."
- Flint: "Small business expansion and new business start-ups would virtually cease in non high-tech areas."
- Grand Forks: "EDA has made it possible to develop the foreign trade zone. Section 312 cuts would impact central business district redevelopment. In these days of tight money SBA is a must. All of these programs create jobs, add to the tax base and are cost effective."
- Hartford: "If SBA loans are eliminated we would not be able to run our matching program....The number of loans the City makes will be reduced as the monetary value of the loans increases."
- Jamestown: "We have heavily utilized the EDA programs to attempt to rebuild our infrastructure and would definitely be hurt by EDA's proposed elimination. Many small business deals would also not happen if SBA were totally eliminated."

- Kansas City, MO: "Kansas City is in the midst of a revitalization program that relies on these loans. It would be extremely unlikely that the private sector could justify making loans in these areas without guarantees. Also, loss of SBA loans would be extremely harmful to economic development."

- Lubbock: "There is a critical need for this type of assistance for low and moderate income people in Lubbock."

- New Orleans: "These programs are critical to housing and economic development activity in the inner city. The city loses its ability to leverage private financing. The Citywide Development Corporation reports over $4 million SBA loans leverage over $7 million in private financing with a job impact of 1,107 jobs. EDA funds of $1.5 million generated over $4.5 million in private money for 405 jobs.

- Reno: "If SBA loans are eliminated, it will adversely affect the tax base and eliminate new jobs and business opportunities."

- Syracuse: "Economic growth would virtually cease."

Section 312

Over half (57.5 percent) of the cities responding to the survey used Section 312 loans last year. These loans came to $33.9 million and involved 3,567 housing units.

Section 108

Section 108 loan guarantees were used by 17.5 percent of the cities during FY84. Nineteen cities were able to guarantee $204 million in loans with the program.

Economic Development Administration

Loans or grants from the Economic Development Administration went to 44.4 percent of the responding cities during FY84. These came to over $38 million.

State Restrictions

Only two states expect their state governments to provide funds to compensate for the proposed elimination of federal loan programs.

EMPLOYMENT & TRAINING

Over 37,000 young people would be forced from jobs programs this summer in 77 of the survey cities because of the proposed recession of $100 million from the 1985 summer youth employment program. All of the proposed cuts in the Job Training Partnership Act -- elimination of the Job Corps and cuts in the summer youth employment and the dislocated worker programs -- would have an adverse effect on 45 percent of the cities responding, and a very adverse effect on another 35.2 percent. Twenty-four cities indicate the proposals would have no effect on their cities. All but six of these cities, however, are in large area consortiums and do not administer Job Training Partnership Act programs directly.

Several cities say the proposed cuts come on top of reductions already sustained in employment and training programs. Charleston officials point out that "a 10 percent decline has already occurred in the number of youth we can help. Continued reductions will only serve to put more youth on the street since alternate employment is not available." Cedar Rapids has the "same chronic unemployment as four years ago, with only one-fifth of the revenues available."

Peoria officials explain why the cuts would be very adverse for their city: "We are currently suffering 14 percent unemployment in real terms. Our economy is in an industry transition -- from heavy manufacturing to service type jobs. This requires more job training and relocation services to improve employment in the area." Akron officials are concerned that they will "not serve as many youth that work in the summer, generating income for their education. We have a large number of dislocated workers who will not be able to be served. These are people who won't be served by other programs." In Kansas City, Missouri, "fewer disadvantaged individuals who lack the training and skills necessary to enter the labor force will receive the training to enable them to obtain gainful employment."

A number of cities comment on the particular effect the proposed cuts would have on young people:

- Grand Forks: "The summer youth program has been very helpful. Young people have been used to cleanup a blighted area along the edge of the central business district."
- Flint: "No other program serves the 14 and 15 year olds included in the employment development service portion of the JTPA summer youth employment program."
- East Chicago: "There are no jobs available for the youth as industry is laying off more and more workers."
- Reno: "Proposed cuts in Job Corps and the summer youth employment program will not allow the city to serve disadvantaged youth properly in this area. There will be more youths on the streets with no positive force in their lives."

- Louisville: "Youth unemployment is at extraordinary proportions. Unemployment relates to crime, vandalism, arson and suicide."

- Mobile: "Cuts will probably result in a crime increase."

Job Corps

Since Job Corps sites are not administered by cities, many of those responding are unable to estimate the number of young people in their city who are served by the program. Forty-six cities did have this information, however, and they estimate that nearly 16,000 young people from those cities are served by the program. Alternative services for the young people in Job Corps would be available in just under one-third (31.9 percent) of the cities responding. In over two-thirds of the cities, such services would not be available.

Many of the comments on the effect that the elimination of Job Corps would have on the young people it serves reflect the fact that the program serves an often troubled population:

- Evansville: "They would turn to other programs which are also being cut back or they would become offenders again. (Job Corps = exoffenders)"

- Columbus: "The program serves delinquents and 'pre-delinquents.' Some would end up in the correctional system."

- Milwaukee: "Social and income maintenance costs would increase."

- Hartford: Elimination of the program "will increase unemployment and our welfare caseload."

- Jamestown: "They will end up in the adult criminal justice system or social services child protection."

- Tacoma: "Job Corps represents the last stop for many of these youths. Jobs Corps is the only thing that keeps them away from an environment that has prevented them from being successful."

Summer Youth Employment

Proposed cuts in the summer youth employment program would force 37,205 young people in 77 of the survey cities from the program this summer and 39,060 young people in 73 cities from the program next summer. In over four out of five cities (84 percent) alternative services for these young people will not be available.

In commenting on what would happen to the young people forced from the program, several cities highlight the importance of the program to a low income family's income and to the young person's education. Allentown points out that the "loss of income could jeopardize education." Seattle officials explain that the city "will have no structured program for them and they probably won't be able to get jobs for the summer. For some children this is serious because they need the money earned in the summer to help pay school costs." Cedar Falls expects that low income families will be particularly hard hit. Iowa City comments that "many of them support themselves or their families."

Others are concerned about the lack of constructive activity. In Columbus "many will end up in 'unstructured environments' -- the city would attempt to attract these youths to recreational programs." Miami and Muncie both comment that young people forced from the summer jobs program will be idle. Chicago officials are concerned that "they would be enticed to join gangs since they would have nothing else to do."

State Restrictions

Only three cities expect their state governments to provide funds to compensate for the proposed federal cuts in employment and training programs.

HEALTH

Based on survey responses, proposed cuts in federal health outlays in FY86 will negatively affect the nation's cities and the people who live in them. From Louisville to Lubbock, from Tacoma to East Orange, from Peoria to Caguas, there is deep concern over the Administration's plans to reduce funding for Medicaid, health block grants and categorical health programs. There is fear that the incidence of infant mortality, childhood diseases, tuberculosis and sexually transmitted diseases will rise -- an effective demonstration of failing health. There is fear that people in need of health care will not receive it. And there is concern that costs of health care will be shifted to local governments.

Eighty percent of all respondent cities with local health departments said they expect an increase in local health costs as a result of such cost shifting.

Medicaid

Seventy percent of cities surveyed said the Administration's plans to cap Medicaid payments to the states will produce reductions in locally available health services or in the number of people who receive care. Sixty-five percent of the cities project cuts in both -- quantity of health services and numbers of people served.

While some cities do not expect Medicaid cuts to directly impact local government, many of them believe there will be an indirect impact. Grand Forks, for instance, said a ripple effect would occur, with other local agencies feeling the pinch. One Pennsylvania city suggested the proposed Medicaid cuts would further reduce the already small number of physicians willing to accept Medicaid patients.

Incidence of Disease

The survey asked cities to indicate if they anticipated an increase in infant mortality, childhood diseases, tuberculosis or sexually transmitted diseases as a result of health funding cuts. About 69 percent foresee a rise in at least one of these categories. More than half said there would be an increase in all four health indicators, meaning a worsening in the city's health status:

- Sexually transmitted disease rates will increase in 67 percent of the cities
- Childhood disease rates will increase in 64 percent
- Infant mortality rates will increase in 62 percent
- Tuberculosis rates will increase in 60 percent

State Restorations

Fewer than four percent of the cities surveyed said they expect the state to provide funding to compensate for any portion of anticipated federal funding cut-backs. In all but two cases, the cities estimated the state restoration as too small to calculate.

CITY FISCAL CONDITIONS

The vast majority of responding cities say they raised revenues or reduced services last year to achieve a balanced budget. A total of 91 percent of the cities said they were forced to take some action. Thus, many painful budget decisions have already been made by cities -- decisions which continue to affect their revenue and expenditure patterns in the current fiscal year.

Of the total number of cities responding

- 49 percent said they raised user fees last year
- 41 percent laid off workers or instituted hiring freezes
- 28 percent enacted property tax increases
- 40 percent were forced to cut services
- 11 percent enacted other tax increases
- 20 percent instituted other changes.

These other changes include speedups of tax collections, cancelling large purchases, fund transfers and a myriad of smaller tax increases.

For this fiscal year, most cities say they are currently predicting a balanced budget. Cities are required by law to balance their budgets. Yet, city expectations of budget balances are contingent on continuing federal aid. Otherwise, additional service cuts or revenue increases will have to be made by these cities soon.

Many of the cities now face a more difficult and more uncertain future because their fiscal years differ from the fiscal year of the federal government. For example, a large number of cities have fiscal years extending from January 1 to December 30, which means their FY85 budgets could be substantially affected by FY86 federal budget cuts which would be effective on October 1.

Of the 22 percent of the survey cities forecasting a budget surplus this fiscal year two out of three have already committed the funds to ongoing services or to the pay-back of prior year deficits. On average, these surpluses comprise 4.3 percent of total city revenues.

Nine percent of the cities responding must take action to avert a deficit this year. On average, the deficits to be overcome represent 8.5 percent of the total city revenues.

STATE AID

The overwhelming majority of cities -- a total of 85 percent -- say they expect no additional funds whatsoever from their states to compensate for the federal budget cuts. Thirteen percent expect their state to provide some funds.

In general, the percentages of cities expecting additional state aid in specific program areas are quite low: Eight percent of the cities expect additional state aid for transportation, 6 percent for health, 4 percent for assisted housing, 4 percent for wastewater treatment and still lower percentages for Community Development Block Grants, Urban Development Action Grants, employment and training and loan programs.

Very few cities could estimate what percent of the federal program cuts might be made up by the states. Those who did predicted very low percentages in virtually all program areas.

There was little correlation of city expectations of additional aid within a state -- that is, while one city in a state would expect additional state aid to compensate for transit (or other) losses, other cities in that state usually would not.

The percentage of cities expecting state aid to compensate for the elimination of general revenue sharing (reported in the "General Revenue Sharing" chapter of this report) was still lower. A total of 94 percent of the cities said they did not expect any additional state help whatsoever to compensate for the loss of revenue sharing.

CITY REVENUES

Fifty-one percent of the cities responding to the Conference of Mayors survey said they would raise local revenues to compensate for some of the proposed federal budget cuts. (For general revenue sharing the percentage is much higher -- 68 percent). Another 49 percent said they would not, either because they are constrained from doing so by state law, have high tax burdens already, or because of the unlikelihood of getting approval from voters, city councils or state legislators. In addition, some of these cities said they would be forced to borrow additional funds in the bond market or take other actions to adjust. Only 3 percent said they would be able to absorb the cuts in some relatively painless way.

Because this was a tax question dealing only with whether cities intend to compensate for the federal budget cuts by raising their own revenues, it does not specifically cover any of the other mechanisms they may use to adjust to such cuts -- service cuts, layoffs, etc.

The major revenue increases cited by respondents were predominantly user fees and property tax increases. To a lesser extent, cities predicted other adjustments, sales tax increases, income tax hikes and other actions.

The table below shows the percentages of the cities that said they would raise specific types of taxes. As can be seen, of those who said they would increases taxes, 53 percent said they would increase user fees for wastewater treatment, and 45 percent would increase them public transit. These programs lend themselves fairly well to user fees, while other programs do not. Of those saying they would raise other taxes, 26 percent said they would increase property taxes to compensate for part of the loss of Community Development Block Grants, 20 percent to compensate for health, 19 percent for transit, 14 percent for wastewater treatment. Most of the cities responding cited more than one revenue increase that they would be forced to make. Consequently, the percentage totals add to more than 100 percent.

Percent of Cities Intending to Raise Taxes to Compensate for Federal Cuts

	Property Tax	Sales Tax	Income Tax	User Fees	Other
Assisted Housing	12%	3%	1%	4%	4%
Community Development Block Grant	26	4	3	4	9
Urban Development Block Grant	8	0	0	0	4
Loan Programs	7	0	0	3	4
Employment & Training	9	0	0	4	1
Health	20	1	0	18	7
Public Transit	19	7	0	45	5
Wastewater Treatment	14	1	0	53	9
Other	16	3	3	14	7

TREASURY DEPARTMENT TAX PROPOSALS

The vast majority of cities predict major adverse consequences for their localities if some of the Treasury Department's tax proposals are adopted.

Curbs on Municipal Bonds

The response to the Treasury Department's proposed curbs on "private purpose" municipal bonds is almost completely negative, with all but one city citing at least one project or effort which would be affected.

Negative effects were cited by

- 90 percent on economic development activities
- 55 percent on infrastructure
- 49 percent on low income housing
- 25 percent on resource recovery
- 25 percent on airports
- 18 percent on nonprofit and private hospitals
- 13 percent on other projects.

The "other" category included renovation of historic buildings and areas, neighborhood and business revitalization, single-family mortgage revenue bonds, social service programs, park development and an increase in interest costs for nearly all city projects.

Elimination of Deductibility

An overwhelming 87 percent predicted that elimination of deductibility of state and local taxes would make it very difficult to raise local taxes, would lead to declining real estate values, or have other negative effects. These "other effects" include increased pressure to reduce taxes, a slowdown in economic development, increased condo conversions and a shift from taxes to user fees. Only nine percent of the sample said there would be no effect and another two percent said they did not yet know the precise effects.

Elimination of Tax Credits

A sizeable majority of the cities also predict that elimination of rehabilitation and historic tax credits -- as proposed by the Treasury Department -- would be adverse or very adverse for their cities. A total of 80 percent say the results would be adverse or very adverse; 20 percent say there would be virtually no effect.

Most of the cities had some knowledge of public-private projects using the rehabilitation tax credits -- those where there is some investment or participation by the city. Few, were however, aware of the private-only projects which might be using the credits.

Elimination of Charitable Deductions

A total of 85 percent of the cities said that the availability of private and nonprofit social services would suffer as a result of the Treasury plan to curb charitable contributions.

APPENDICES

APPENDIX A

PLEASE MAIL THIS QUESTIONNAIRE NO LATER THAN CLOSE OF BUSINESS, MONDAY, FEBRUARY 25, 1985 TO THE U.S. CONFERENCE OF MAYORS

Do you wish the information in this
questionnaire held confidential?
___Yes ___No CITY______________________

THE IMPACT OF THE PROPOSED FY86 BUDGET ON CITIES

1. **General Revenue Sharing**

a) The Administration's budget proposes to eliminate General Revenue Sharing in FY86. What percentage of your city's total revenues including all intergovernmental grants is accounted for by the revenue sharing program?___________%

b) If revenue sharing is eliminated, what is your city's likely course of action? Check the appropriate items below.

Cuts in Services
___Public safety (police and fire)
___Human services
___Sanitation
___Capital improvements
___Health services
___Other (explain)_______________________________________
___None

Tax Increases
___Property taxes
___Income taxes
___User fees
___Sales taxes
___Other tax hikes (explain)____________________________

Other Actions (explain)_________________________________
____
____

c) Do you expect your state government will make up for any of the cut in revenue sharing funds? ___Yes ___No
If yes, what percentage?____________________%

2. **Community Development Block Grant**

a) The Administration's FY86 budget proposes a 10 percent cut in CDBG and a change in the entitlement cities/small cities ratio from 70/30 to 60/40. This translates into a proposed 23 percent cut for entitlement cities and a possible 10 percent cut for small cities. What will be the effect of this cut on community development in your city?
___None ___Adverse ___Very Adverse

PAGE 2 CITY______________________

Explain____

____

____

b) Show the percentage of your CDBG that goes into each of the following areas.
Economic Development________________%
Housing Assistance__________________%
Social Services_____________________%
Public Works/Infrastructure_________%
Other_______________________________%

c) Which of the areas listed above would most likely be cut in your city as a result of the federal cut?__________

____

3. **Urban Development Action Grants**

a) The federal budget proposes to eliminate UDAGs beginning in FY86. What would be the effect of the elimination of the program in your city?
___None ___Adverse ___Very Adverse

Explain____

____

____

b) How many projects eligible for UDAG funding is your city now applying for or planning to apply for? _____

c) How many dollars in the following categories do these projects involve?
UDAG $______________________
Other public $_______________
Private $____________________

d) How many jobs would these projects create in your city?

____

e) How many of these projects do you expect to go ahead without UDAG funding?______________________________

4. **Public Transit**

The proposed FY86 budget calls for a two-thirds reduction in transit assistance, which would include a total elimination of federal operating assistance and a rise in the local matching share from 20 to 30 percent. The combined effect of this proposal would mean a loss of most of the federal capital assistance as well as all of the transit operating assistance to your urban area. If this budget were approved:

a) Would the fares charged by your transit system increase?
___Yes ___No If yes, by what percent?___________%

b) Would there be a reduction in the number of transit vehicles in service? ___Yes ___No

c) Would there be a reduction in routes? ___Yes ___No

d) Overall, what percentage of transit service would be reduced? ________% reduction of service

e) Would the transit system in your city be threatened with a shutdown? ___Yes ___No

5. **Wastewater Treatment Construction Grants**

The proposed FY86 budget calls for a four year phaseout of wastewater treatment construction grants, with a likely schedule to be a 25 percent reduction in each of the next four years. During those four years, federal funding would only be available for completing existing projects. Beginning in FY86 no funding would be available for new projects. If this budget were enacted:

a) Would your city be able to complete existing wastewater treatment facilities in four years, given a 25 percent reduction in each of the next four years? ___Yes ___No

b) Is your city operating under a consent decree, administrative order or other binding contractual agreement to comply with FY88 clean water standards?
___Yes ___No

c) In the absence of federal funding, will your city be able to meet these obligations without a significant increase in taxes or user fees? ___Yes ___No
Estimate the percent of tax or user fee increase required
________________%

d) Would the inability to complete an existing project or construct a new project have a negative impact on (check if relevant)
___Housing
___Community development
___Economic development
___Jobs
___Environmental quality

6. **Assisted Housing**

a) The FY86 budget proposes a moratorium on all new units of assisted housing. What will be the effect of this moratorium on the availability of housing affordable by low income people in your city?
___None ___Adverse ___Very Adverse

CITY______________________

Explain ____
____
____
____

b) Funds for the modernization of public housing, other than for emergencies, would be eliminated for one year. What would be the effect of this action on public housing in your city?
___None ___Adverse ___Very Adverse

c) What is the current waiting list for the following types of assisted housing in your city?
Section 8____________months
Section 202__________months
Public Housing_______months
What will be the effect of the proposed moratorium on these waiting lists? ___None ___They will be lengthened.

d) How many units did your city receive in each of the following categories of assisted housing in FY84?
Section 8_____________________
Section 202___________________
Public Housing________________
Rental Rehabilitation_________

e) How many projects eligible for Housing Development Action Grants is your city now applying for or planning to apply for?____
How many total units are involved?__________________
What percentage of these units are for low income people?
______________________________%

7. **Loan Programs (Section 312, Section 108, EDA, SBA)**

a) The FY86 budget proposes to eliminate Section 312 rehabilitation loans, Section 108 community development loan guarantees, the Small Business Administration's loan programs and the loan and grant programs of the Economic Development Administration. What would be the effect on your city of the elimination of these programs?
___None ___Adverse ___Very Adverse

Explain ____
____
____
____

b) Did your city use the Section 312 loan program last year?
___Yes ___No
If yes, how much money and how many units were involved?
$______________ ________________units

PAGE 5 CITY______________________

c) Did your city use Section 108 loan guarantees during FY84?
___Yes ___No
If yes, how much money was guaranteed by this program in your city last year? $_____________

d) Did your city receive funds from the Economic Development Administration during FY84? ___Yes ___No
If yes, how much? $________________________

8. **Employment and Training**

a) The FY86 budget proposes to eliminate the Jobs Corps, to cut the summer youth employment program by $100 million (12 percent) in FY85 and by another $60 million (19.4 percent in total) in FY86, and to cut the dislocated worker program by $120 million in FY85 (51 percent) and by another $15 million (57 percent in total) in FY86. What will be the effect of these cuts on your city?
___None ___Adverse ___Very Adverse

Explain ____
____
____

b) How many young people in your city are served by the Jobs Corps?______________
Are alternative services available to them in your city?
___Yes ___No
What will happen to these young people if the program is eliminated?____
____
____

c) How many young people in your city will be forced from the summer youth employment program if it is cut this summer?
____________next summer?______________
Are other jobs programs available for them? ___Yes ___No
What will happen to these young people?________________
____
____

9. **Health**

a) The FY86 budget proposes to cut $1.1 billion from the Medicaid program, capping federal matching payments to the states. Do you anticipate a reduction in services or a reduction in the number of people served as a result? (Check if appropriate)
Services cut ___Yes ___No
People cut ___Yes ___No

b) The FY86 budget proposes to freeze health block grants (maternal and child health, prevention, primary care, and alcohol, drug abuse and mental health) at FY85 levels and to cut various public health programs such as immunization, tuberculosis control, and sexually transmitted disease control. Do you expect the incidence of infant mortality, childhood diseases, tuberculosis, or sexually transmitted diseases to rise as a result?

Infant mortality ___Yes ___No
Child diseases ___Yes ___No
Tuberculosis ___Yes ___No
Sexually transmitted diseases ___Yes ___No

c) Does your city operate a local health department?
___Yes ___No
If yes, will it experience an increase in local costs as a result of a shifting of costs and responsibilities for services from other local providers? ___Yes ___No

10. Will your city government be able to raise local revenues to compensate for any of the federal cuts described in questions one through nine? ___Yes ___No

If yes, check below for which program areas and by which kind of tax your city would raise local revenues

	Property Tax	Sales Tax	Income Tax	User Fees	Other
Assisted Housing					
CDBG					
UDAG					
Loan Programs					
Employ. & Train.					
Health					
Public Transit					
Wastewater Treat.					
Other Programs					

11. Do you expect your state government to provide funds to your city to compensate for the cuts? ___Yes ___No

If yes, please check those program areas for which you expect your state to provide funds and indicate the percentage of the cut you expect the state to restore.

___Assisted Housing________________%
___CDBG____________________________%
___UDAG____________________________%
___Loan Programs___________________%
___Employment and Training_________%
___Health__________________________%
___Transportation__________________%
___Wastewater Treatment____________%

PAGE 7 CITY____________________

12. **Surplus/Deficit**

a) For the current fiscal year are you now facing an
___operating budget deficit,
___operating budget surplus, or
___balanced budget?

b) If you are facing a surplus or a deficit, what percent of total revenues does this represent?______%

c) If you expect a surplus this year, is this surplus already committed to ongoing services? ___Yes ___No

d) What is your city's fiscal year?________________________

e) Check which budget adjustment, if any, your city made in the last fiscal year to achieve a balanced budget.
___Property tax increases
___User fee increases
___Income tax increases
___Other tax hikes
___Service cutbacks
___Hiring freezes or layoffs
___Other (explain)____

13. **Tax Proposals**

The Treasury Department has proposed a tax plan which proposes to end the tax exemption of all private purpose bonds, to curtail the charitable contribution deduction, to eliminate all rehabilitation and historic preservation tax credits and to eliminate the deductability of all state and local taxes, including property taxes.

a) Check the types of projects that would be jeopardized in your city if the exemption for private purpose bonds is terminated.
___Infrastructure projects
___Resource recovery
___Airports
___Ports
___Low income housing
___Hospitals
___Economic development activities
___Other (explain)____

b) What would be the effect in your city of terminating all rehabilitation and historic tax credits?
___None ___Adverse ___Very Adverse
How many projects are currently pending in your city for which you plan to make use of these tax credits? ________

PAGE 8 CITY____________________

c) Will social services in your city be adversely affected by Treasury's plan to curtail the charitable contribution deduction?

___Yes ___No

d) What do you expect will be the result in your city if the current deduction for state and local taxes were eliminated?

___More difficulty raising local taxes
___Adverse effect on real estate values
___Other effect (explain)____________________
___NO effect

PERSON COMPLETING QUESTIONNAIRE
Name____________________
Title____________________
Agency____________________
Address____________________
____
Telephone (   )____________________

PLEASE MAIL THIS QUESTIONNAIRE NO LATER THAN CLOSE OF BUSINESS MONDAY, FEBRUARY 25, 1985 TO:

U.S. CONFERENCE OF MAYORS
1620 EYE STREET, N.W.
WASHINGTON, D.C. 20006

THANK YOU!

APPENDIX B: SURVEY RESPONSES FROM FIFTY SELECTED CITIES

	GENERAL REVENUE SHARING		CDBG	UDAG	TRANSIT
CITY NAME	Service Cuts	Tax Increases	Areas Cut	Effect of Program Elimination	Effect of Cuts. Will Fares Increase?
	A-Public Safety B-Human Services C-Sanitation D-Capital Improvement E-Health Services	A-Property Taxes B-Income C-User Fees D-Sales	A-Economic Develop B-Housing Services C-Social Serivices D-Public Works/ Infrastructure		
Annapolis, MD	A,D	A,C	B,D	none	yes
Ashland, KY	D	C	A,B,C,D	adverse	yes
Asheville, NC	D	A,C	B	very adverse	yes
Aurora, CO	--	--	A,B,C,D	none	--
Birmingham, AL	B,D	--	B	very adverse	yes
Caguas, PR	--	--	C,D	very adverse	--
Cambridge, MA	--	A	B	adverse	yes
Cedar Rapids, IA	--	A	B	none	yes
Charleston, SC	A,C,D	A,C	A,B	very adverse	yes
Cheyenne, WY	D	--	A	none	no
Chicago, IL	B,C,E	--	A,B,C,D	adverse	yes
Clearwater, FL	--	A,C	A,B	--	--
Columbus, OH	--	C	A,B,C,D	none	yes
East Orange, NJ	A,B,D	A	A,B	adverse	yes
Erie, PA	A	A	A,B,C,D	very adverse	yes
Evansville, IL	A,B,E	A,B	A,B,C,D	very adverse	yes
Flint, MI	A	A	B	very adverse	yes
Fresno, CA	D	--	--	adverse	yes
Greenville, SC	D	A,C	--	adverse	yes
Hartford, CT	--	A	--	very adverse	yes
Hermitage, PA	D	A	B	none	--
Iowa City, IA	B,D	A,C	B	none	yes
Jamestown, NY	A,B	A,C	A,B,C,D	very adverse	yes
Juneau, AK	--	A,C	--	--	no
Lafayette, IN	A,D,E	A,C	A,D	adverse	yes

	GENERAL REVENUE SHARING		CDBG	UDAG	TRANSIT
CITY NAME	Service Cuts	Tax Increases	Areas Cut	Effect of Program Elimination	Effect of Cuts. Will Fares Increase?
	A-Public Safety B-Human Services C-Sanitation D-Capital Improvement E-Health Services	A-Property Taxes B-Income C-User Fees D-Sales	A-Economic Develop B-Housing Services C-Social Serivices D-Public Works/ Infrastructure		
Louisville, KY	C,D	--	B,D	adverse	yes
Lubbock, TX	D	A,C	B,C	very adverse	yes
Madison, WI	D	A,C	A,B	adverse	yes
Mankato, MN	A,D	A,C	--	none	yes
Miami, FL	A,B,C	--	C	very adverse	--
Milwaukee, WI	A,C,E	A	A,B,C,D	very adverse	yes
Mobile, AL	D,E	--	B	none	yes
New Orleans, LA	--	--	A,B,C,D	adverse	no
Norfolk, VA	B,C,D,E	A,C	B	adverse	no
Oak Park, MI	A,B	--	A,B,C,D	very adverse	yes
Orem, UT	A,D	A	B,C	none	yes
Pawtucket, RI	A,C,D	A	A,B,C,D	adverse	yes
Peoria, IL	A,D	--	B,C	very adverse	yes
Rochester, MI	D	A	A,C	none	yes
St. Louis, MO	--	--	B	very adverse	yes
San Francisco, CA	B,D	--	A,B,C,D	very adverse	no
Seattle, WA	--	--	--	adverse	yes
South Bend, IN	--	A	A,B,C,D	adverse	yes
Spokane, WA	A,B,D	C	B,C	none	yes
Syracuse, NY	--	A	A,B,C	very adverse	--
Tacoma, WA	A,B,C	--	C	adverse	yes
Tempe, AZ	--	--	B	none	yes
Toledo, OH	B,C,D,E	--	B,C	very adverse	--
Trenton, NJ	A	A	B,C	very adverse	yes
Tuscon, AZ	--	--	A,B,C	adverse	yes

CITY NAME	WASTEWATER TREATMENT	HOUSING	LOANS	EMPLOYMENT & TRAINING	HEALTH
	Able to complete existing projects in 4 years?	Moratorium. Will waiting list for new units be lengthened?	Effect of elimination of loan programs (SBA, Sec. 132, 108, EDA)	Effect of elimination/cuts (Summer Youth Employment and Dislocated Worker)	Will services be cut due to Medicaid cut?
Annapolis, MD	no	yes	adverse	adverse	--
Ashland, KY	no	yes	very adverse	none	--
Asheville, NC	no	yes	very adverse	--	--
Aurora, CO	--	yes	adverse	adverse	yes
Birmingham, AL	--	yes	adverse	very adverse	no
Caguas, PR	no	yes	very adverse	--	--
Cambridge, MA	--	yes	very adverse	very adverse	yes
Cedar Rapids, IA	--	yes	none	very adverse	--
Charleston, SC	yes	yes	very adverse	very adverse	--
Cheyenne, WY	yes	--	none	none	--
Chicago, IL	--	--	adverse	--	--
Clearwater, FL	yes	--	adverse	none	--
Columbus, OH	yes	no	none	--	no
East Orange, NJ	yes	yes	very adverse	adverse	yes
Erie, PA	--	yes	adverse	very adverse	yes
Evansville, IL	yes	yes	very adverse	very adverse	yes
Flint, MI	yes	yes	very adverse	very adverse	yes
Fresno, CA	yes	--	--	adverse	--
Greenville, SC	--	--	adverse	--	--
Hartford, CT	--	yes	very adverse	very adverse	yes
Hermitage, PA	yes	--	adverse	--	--
Iowa City, IA	no	yes	none	adverse	--
Jamestown, NY	no	yes	very adverse	adverse	yes
Juneau, AK	yes	--	none	--	no
Lafayette, IN	no	yes	none	very adverse	yes

CITY NAME	WASTEWATER TREATMENT Able to complete existing projects in 4 years?	HOUSING Moratorium. Will waiting list for new units be lengthened?	LOANS Effect of elimination of loan programs (SBA, Sec. 132, 108, EDA)	EMPLOYMENT & TRAINING Effect of elimination/cuts (Summer Youth Employment and Dislocated Worker)	HEALTH Will services be cut due to Medicaid cut?
Louisville, KY	no	yes	very adverse	adverse	yes
Lubbock, TX	yes	yes	very adverse	adverse	yes
Madison, WI	yes	yes	adverse	adverse	yes
Mankato, MN	yes	yes	adverse	none	--
Miami, FL	--	yes	very adverse	very adverse	yes
Milwaukee, WI	yes	--	very adverse	adverse	yes
Mobile, AL	yes	yes	adverse	adverse	--
New Orleans, LA	no	yes	very adverse	adverse	yes
Norfolk, VA	yes	yes	very adverse	adverse	yes
Oak Park, MI	no	yes	very adverse	very adverse	yes
Orem, UT	yes	--	--	adverse	yes
Pawtucket, RI	no	yes	very adverse	adverse	yes
Peoria, IL	no	--	very adverse	very adverse	yes
Rochester, MI	yes	--	adverse	none	--
St. Louis, MO	no	--	very adverse	very adverse	--
San Francisco, CA	no	yes	adverse	adverse	no
Seattle, WA	yes	--	very adverse	very adverse	yes
South Bend, IN	yes	yes	adverse	very adverse	yes
Spokane, WA	yes	yes	adverse	adverse	yes
Syracuse, NY	--	yes	very adverse	very adverse	--
Tacoma, WA	yes	yes	very adverse	adverse	yes
Tempe, AZ	--	yes	--	--	--
Toledo, OH	--	--	very adverse	--	--
Trenton, NJ	no	yes	very adverse	very adverse	yes
Tuscon, AZ	yes	yes	adverse	very adverse	--

CITY NAME	LOCAL REVENUE	STATE ASSISTANCE	PAST YEAR BUDGET ADJUSTMENTS	ELIMINATION OF FEDERAL TAX EXEMPTION FOR PRIVATE PURPOSE BONDS	ELIMINATION OF STATE/LOCAL TAX DEDUCTIBILITY
	Can local revenue be raised to compensate for federal cuts?	Will state provide funds to compensate for federal cuts?	A-Property Tax Increase B-User Fee Increase C-Income Tax Increase D-Other Tax Increase E-Service Cutbacks F-Hiring Freeze/Layoff	A-Infrastructure proj. B-Resource recovery C-Airports D-Ports E-Low Income Housing F-Hospitals G-Economic Development	A-More difficulty raising local taxes B-Adverse effect on real estate C-No effect
Annapolis, MD	yes	no	A,B	A,B,G	A,B
Ashland, KY	yes	no	E,F	A,F,G	A
Asheville, NC	no	no	B,D	A,C,E,G	A,B
Aurora, CO	no	no	--	--	--
Birmingham, AL	no	no	--	F,G	C
Caguas, PR	no	yes	E,F	--	--
Cambridge, MA	no	no	A	G	A,B
Cedar Rapids, IA	yes	--	--	A,C	A
Charleston, SC	no	no	A,B	A,C,D,E,F,G	A,B
Cheyenne, WY	no	no	F	--	C
Chicago, IL	no	no	B,D,F	A,C,E,G	A
Clearwater, FL	yes	no	A,B	G	C
Columbus, OH	yes	yes	--	G	C
East Orange, NJ	yes	no	A	A	B
Erie, PA	no	no	A,F	--	A,B
Evansville, IL	no	no	A	G	A
Flint, MI	yes	yes	C	A,C,E,G	C
Fresno, CA	no	no	--	A,C,E,F,G	B
Greenville, SC	yes	no	--	A	A
Hartford, CT	no	no	--	G	A,B
Hermitage, PA	--	no	C	--	A,B
Iowa City, IA	yes	no	A,B	--	--
Jamestown, NY	no	no	A,B	G	A,B
Juneau, AK	yes	yes	A,B	A,E	C
Lafayette, IN	yes	no	A,B,C	A,G	A,B

CITY NAME	LOCAL REVENUE Can local revenue be raised to compensate for federal cuts?	STATE ASSISTANCE Will state provide funds to compensate for federal cuts?	PAST YEAR BUDGET ADJUSTMENTS A-Property Tax Increase B-User Fee Increase C-Income Tax Increase D-Other Tax Increase E-Service Cutbacks F-Hiring Freeze/Layoff	ELIMINATION OF FEDERAL TAX EXEMPTION FOR PRIVATE PURPOSE BONDS A-Infrastructure proj. B-Resource recovery C-Airports D-Ports E-Low Income Housing F-Hospitals G-Economic Development	ELIMINATION OF STATE/LOCAL TAX DEDUCTIBILITY A-More difficulty raising local taxes B-Adverse effect on real estate C-No effect
Louisville, KY	no	no	--	E	--
Lubbock, TX	no	no	--	C,G	B
Madison, WI	yes	no	A,B,E,F	A,B,E,G	A
Mankato, MN	yes	yes	A,B	G	A
Miami, FL	no	no	A,B,F	A,G	A
Milwaukee, WI	no	no	A,B	E,G	A,B
Mobile, AL	no	no	D	G	A,B
New Orleans, LA	yes	no	B,D,E,F	A,B,C,D,E,F,G	A,B
Norfolk, VA	no	no	B	C,F,G	A,B
Oak Park, MI	no	no	F	A,G	A,B
Orem, UT	--	no	A,B	A,B,E,F,G	A,B
Pawtucket, RI	no	yes	A	E,G	A
Peoria, IL	no	no	--	A,G	A
Rochester, MI	yes	no	A	F,G	A,B
St. Louis, MO	no	no	F	A,B,C,E,G	A
San Francisco, CA	no	no	--	E,G	C
Seattle, WA	no	no	B	A,B,E,F,G	A
South Bend, IN	yes	no	A,E,F	A,B,C,G	A,B
Spokane, WA	yes	no	B,E	B,G	A
Syracuse, NY	no	no	A,F	E,G	A
Tacoma, WA	yes	no	E,F	G	A,B
Tempe, AZ	no	no	A,B	E,G	A
Toledo, OH	no	no	B,C	A,B,C,D,E,G	A,B
Trenton, NJ	yes	yes	A,E,F	E	C
Tuscon, AZ	--	no	A,B	E,G	B

APPENDIX C: CITIES RESPONDING TO THE SURVEY

CITY	POPULATION	CITY	POPULATION
Akron, OH	231,659	Fort Wayne, IN	167,633
Alameda, CA	63,852	Fresno, CA	244,623
Allentown, PA	104,324	Gastonia, NC	47,333
Annapolis, MD.	31,740	Grand Forks, ND	43,765
Anchorage, AK	194,675	Grand Rapids, MI	182,774
Ann Arbor, MI	104,880	Greeley, CO	53,006
Arlington, TX	182,975	Greenville, SC	58,242
Asheville, NC	53,281	Hamilton Township, NJ	82,801
Ashland, KY	27,064	Harrisburg, PA	53,264
Aurora, CO	184,372	Hartford, CT	136,334
Baton Rouge, LA	361,572	Hawthorne, CA	56,447
Beaumont, TX	123,477	Hayward, CA	94,167
Benton Harbor, MI	14,707	Hermitage, PA	17,540
Birmingham, AL	283,239	Highland Park, IL	30,611
Boston, MA	560,847	Honolulu, HI	781,899
Bountiful, UT	32,877	Houston, TX	1,725,617
Brooklyn Center, MN	31,230	Indianapolis, IN	707,655
Buena Park, CA	64,165	Inkster, MI	35,190
Caguas, PR	119,800	Iowa City, IA	50,508
Cambridge, MA	95,322	Jackson, MS	204,195
Carbondale, IL	27,194	Jacksonville, FL	556,370
Cedar Rapids, IA	109,086	Jamestown, NY	35,775
Charleston, SC	69,510	Jersey City, NJ	222,881
Cheyenne, WY	47,283	Joliet, IL	77,956
Chicago, IL	2,997,155	Juneau, AK	27,500
Cincinnati, OH	380,118	Kansas City, KS	162,211
Clearwater, FL	85,450	Kansas City, MO	445,222
Cleveland, OH	558,869	Kettering, OH	61,186
Colorado Springs, CO	231,699	Kokomo, IN	47,808
Columbus, OH	570,588	Lafayette, IN	43,011
Concord, CA	104,061	La Mirada, CA	40,986
Corpus Christi, TX	246,081	Largo, FL	58,977
Covington, KY	49,013	Lauderhill, FL	37,271
Cranston, RI	71,992	Los Angeles, CA	3,022,247
Culver City, CA	38,139	Louisville, KY	293,531
Dallas, TX	943,848	Lubbock, TX	176,588
Davenport, IA	103,799	Madison, WI	172,640
De Kalb, IL	33,099	Mankato, MN	28,651
Denton, TX	48,063	Mason City, IA	30,144
Denver, CO	505,563	Memphis, TN	645,760
Detroit, MI	1,138,717	Miami, FL	382,726
East Chicago, IN	39,786	Milwaukee, WI	631,509
East Orange, NJ	77,878	Minneapolis, MN	369,161
Elmhurst, IL	44,251	Mobile, AL	204,586
Erie, PA	118,493	Monroe, LA	57,597
Evansville, IN	130,275	Montebello, CA	52,929
Fall River, MA	92,574	Muncie, In	77,216
Flint, MI	154,019	Nashua, NH	67,865

CITY	POPULATION
Natchez, MS	22,209
New Bedford, MA	98,478
New Orleans, LA	564,561
New York, NY	7,086,096
Norfolk, VA	266,874
Oak Park, IL	54,887
Oak Park, MI	31,537
Ogden City, UT	64,407
Oklahoma City, OK	427,714
Omaha, NE	328,557
Orem, UT	52,399
Paducah, KY	29,315
Parsippany-Troy Hills, NJ	49,868
Pawtucket, RI	71,204
Peoria, IL	122,261
Philadephia, PA	1,665,382
Phoenix, AZ	824,230
Pittsburgh, PA	414,936
Port Arthur, TX	61,195
Provo, UT	73,907
Reno, NV	106,748
Richmond, CA	74,676
Richmond, VA	218,237
Riverside, CA	174,023
Rochester, MN	57,855
Rockford, IL	138,334
Sacramento, CA	288,597
St. Louis, MO	437,354
St. Petersburg, FL	241,214
Salt Lake City, UT	163,859
San Antonio, TX	819,021
San Francisco, CA	691,637
San Jose, CA	659,181
San Juan, PR	522,700
Savannah, GA	145,699
Seattle, WA	490,077
Shreveport, LA	210,881
South Bend, IN	107,690
Spokane, WA	171,903
Stockton, CA	161,815
Sunrise, FL	39,681
Syracuse, NY	166,187
Tacoma, WA	161,351
Tampa, FL	276,413
Tempe, AZ	112,514
Terre Haute, IN	61,125
Toledo, OH	350,565
Topeka, KS	120,269
Torrance, CA	130,213
Trenton, NJ	92,124
Tucson, AZ	352,455
Tulsa, OK	375,300
Waltham, MA	58,200
Washington, D.C.	633,425
Waukegan, IL	67,653
West New York, NJ	39,194
Wilkes-Barre, PA	51,551
Wilmington, DE	70,195
Winston-Salem, NC	140,846
Worcester, MA	161,049
York, PA	44,619

Mr. MORIAL. This report shows that if the proposed Federal budget is adopted without amendment, key Federal program assistance of direct benefit to cities from fiscal year 1981 to 1986 will have dropped 80 percent in real dollars; 9 out of 10 cities will be adversely affected by the elimination of urban programs that have promoted job development, business activity, economic revitalization, and urban growth.

Of 157 cities surveyed, 83 percent expect negative effects from the elimination of SBA Loan Programs, in particular.

Officials in Akron, OH, said SBA's elimination would have a "strong negative effect on the city."

Grand Forks said, "In these days of tight money, SBA is a must."

Hartford said, "If SBA loans are eliminated, we would not be able to run our matching program."

Kansas City is in the midst of a revitalization program that relies on SBA loans. Reno said its tax base and economy would be adversely affected if SBA loans are eliminated.

In my city of New Orleans, SBA loans are critical to small business development and economic activity. The New Orleans Citywide Development Corp. was created in 1979 to administer the SBA Loan Program in this city. To date, it has been one of the most successful and active SBA Programs in the Nation.

Citywide, through SBA resources, has funded 19 projects for small businesses totaling more than $12.6 million dollars in total investment and providing more than 1,200 jobs for city residents.

Printing companies, leather goods manufacturers, hydraulic lift, and power tool distributors, grocery stores, aircraft parts manufacturers and many other types of small businesses have been assisted by SBA loans available through the New Orleans Citywide Development Corp.

Additionally, these SBA moneys have helped this city to promote minority and women entrepreneurial activity by providing help to those who otherwise would have no entry to the economic mainstream.

This assistance has not come through any handouts, but solely through the creation of business opportunity and loan activity for the small business person. On a national level, for example, it is estimated that 10,000 jobs were created as a direct result of SBA Loan Programs, and more than 3,500 companies have benefited from SBA awards.

To eliminate this program would cause, therefore, very serious and far-reaching problems for those involved in small, urban business development in this city and other cities.

Many business assistance programs in cities across the Nation would be closed altogether if SBA were eliminated. Not merely loan moneys, but also a very valuable source of business development information, would be lost. Many minority business loan programs would be abolished if SBA were discontinued. SBA Loan Programs have been extremely important to the minority or women entrepreneur who has found conventional loan sources off limits to them.

Additionally, if SBA was discontinued, the disaster loan fund would be closed, leaving business and homeowners without funds to reestablish and rebuild themselves after hurricanes or floods.

In New Orleans, the closing of SBA Programs would severely impact our small business programs, such as neighborhood commercial revitalization or minority/women business development, minority/women employment, job development, or economic growth activities.

These assistance efforts form a network of aid to small business, and small business is the lifeblood of this city's economy. It is these businesses that employs most of our residents.

A strong small business community is crucial to broadening our tax base, to diminishing unemployment, and to strengthening our economic progress.

SBA is a vital component of New Orleans, and many other cities', economic well-being. It is a valuable resource which links our Federal and urban governments in a cooperative effort to promote economic recovery and expansion at the most basic level.

Cities support SBA, and it supports us. We do not want it discontinued. This is not to say that the SBA Loan Program cannot be reorganized to reflect new ideas.

This is not to say SBA loans should not be authorized for new uses, for broader loan guarantees, for use with matching city funds, or for use in other types of fiscal activity by a city.

But rather than dismantle this program and the other urban assistance resources which stimulate economic activity, the mayors of this Nation feel the Federal Government has a responsibility to insure domestic tranquility and promote the general welfare within our cities by supporting the programs, like SBA, which are vital components of the Federal-urban relationship.

Therefore, I would like to urge this committee to oppose elimination of SBA and other urban assistance programs and instead, support a unilateral spending freeze for at least a year in all non-means tested programs, like SBA, in the Federal budget so that reforms to these programs can be undertaken without an ax-wielding mentality.

I also urge this committee to support measures which close loopholes in the corporate tax structure, so that these funds can be dedicated to reducing our Federal deficit instead of taking money away from city treasuries.

The mayors of this country recognize that cities must make more of an effort to understand their local economies and plan for a more aggressive economic development role.

But resources which are essential to this economic independence must be strengthened, not abandoned. If we wish to build those shining cities upon America's hills, plains, coasts, and valleys, then Federal and urban governments must act in concert, not in competition.

I hope this hearing this morning will explore how important SBA is to this State and to this city. I hope my introductory remarks provide a foundation for those following me this morning to build upon with more specific facts and examples of SBA's importance to this community.

I regret that I could not have spent more time this morning at this hearing. Even now, I must close early so that I can make another engagement. With your permission, I will beg to be excused, due to the pressing demands of my schedule, but let me close with best wishes for a successful discussion here this morning, and we hope while you are in our city, you will find an agenda and an approach for solving the problems confronting you as you grapple with the very difficult issue, and that is the perpetuation of the Small Business Administration.

Mr. MITCHELL. Thank you very, very much, Mr. Mayor, for a very, very definitive and powerful statement in support of the Small Business Administration. Let me assure you that I and the vast majority of the members of the House Small Business Committee are committed to the prevention of the dismantling of the Small Business Administration.

It simply does not make any sense to do this, and with your help and with the help of people from all over the country, other mayors, I am convinced that we will win this struggle.

Thank you for taking time from an incredible schedule.

Before we get into the actual hearing, I want to acknowledge the presence of Mr. Floyd Long, a brother of our beloved colleague, Gillis Long, who served with us in the Congress. He is here today representing our new Congressperson, Congresswoman Kathy Long.

I want to recognize our staff people, in addition. Seated over to my right is Chris Russell, who represents the minority side, that is, the Republican side of the House Small Business Committee, and also seated over there is Tom Powers, the legal counsel for the House Small Business Committee.

To my left is Joseph Sobota, who has been tremendously instrumental in setting up these hearings all over the country. Somehow or another, he gets it done.

Congressman Charles Hayes of the State of Illinois is really one of the most hard working and effective members of the House Small Business Committee, and Congressman Hayes has kindly consented to chair this hearing this morning.

So with that, sir, I will turn it over to you.

OPENING STATEMENT OF ACTING CHAIRMAN HAYES

Mr. HAYES [presiding]. Thank you, Mr. Chairman.

I am pleased to Chair this hearing this morning. I am also pleased to be here in New Orleans this morning along with my Chairman, Parren Mitchell, who has come here from Baltimore.

As many of you know, the President has proposed the elimination of the Small Business Administration. Clearly all of the financial assistance programs would also be eliminated.

However, a few of SBA's programs such as procurement assistance, innovation and research, minority small business assistance, advocacy and SCORE, the Service Corps of Retired Executives, would be transferred to the Commerce Department.

Such a transfer, however, is merely the prelude to eliminating these programs also, as the Commerce Department represents big business and certainly does not want to be bothered with the transfer of additional functions.

I am sure it would only be a question of when that these transferred functions somehow would slip out of sight in the administration's future budget requests.

At these hearings we will be seeking the views of small businesses which have participated in SBA's programs. The views and recommendations from those who actually have received help from the agency are very important to us as they supply firsthand knowledge of the effectiveness of the programs and their worth as an expenditure of tax revenues.

I also want to point out that President Reagan's administration frequently claims that SBA only helps some 21,000 small businesses per year.

This is true if all you count are regular business direct and guaranteed loans, but it ignores the 14,000 disaster victims, the almost 4,000 who receive equity capital through the SBIC Program, the 7,000 who receive surety bond guarantees, the 5,000 who participate in the 8(a) Program, the 210,000 who receive counseling and the 380,000 who receive training every year.

In conclusion, I want to point out the shortsightedness of a relatively unknown part of the President's proposal to eliminate SBA. Due to its loan-making activities, the agency has a portfolio of loans worth almost $10 billion. The President has proposed to sell these loans to improve cash flow.

This is nothing more than a conversion of assets and is being done at a very expensive price. According to testimony from OMB Director Stockman, the administration's budget proposal includes the sale of $9.8 billion in loan assets over 4 years, but the projected yield is only $1.83 billion.

Thus, we would expect to receive less than 19 cents on the dollar and this would create a windfall for investors under the guise of budget authority.

This is totally unnecessary, and I would note that in the past, OMB opposed a proposal to sell smaller parts of the portfolio even though we were projecting that we might obtain at least triple or higher yields than those projected by Mr. Stockman.

Again, I want to state that we appreciate the appearances of these small businesses and other witnesses before us today. I recognize that for some of them, it is a considerable sacrifice to be away from their businesses, but I want to assure you that only through such testimony are we really made familiar with the effectiveness and value of the programs.

Before we begin, Parren, do you have some remarks?

Mr. MITCHELL. No, Mr. Chairman.

Mr. HAYES. I would like, then, to call our first panel.

Panel No. 1 will deal in the area of development company financings, Ms. Elizabeth Butler from New Orleans Citywide Development Corp.; and Mr. William Mimeles, Torino Belts, Inc.; and Mr. Peter A. Roy, Whole Food Co., Inc. Will you come forward? Also, Mr. Jack Scariano, Jr., of Scariano Brothers, Inc.; Mr. Ralph Beerman, Beerman Precision, Inc., here in New Orleans.

Let me explain to you that we have prepared statements from each of you, so you may deliver the statement in any way you wish. Your entire statements will be made a part of the record.

Ms. Butler.

TESTIMONY OF ELIZABETH S. BUTLER, EXECUTIVE DIRECTOR, NEW ORLEANS CITYWIDE DEVELOPMENT CORP.

Ms. BUTLER. Chairman Mitchell, Congressman Hayes, thank you for giving us this opportunity to appear before you today to discuss the economic impact of the SBA 503 Program on the city of New Orleans. I am Elizabeth S. Butler, executive director of New Orleans Citywide Development Corp.

Citywide was formed in 1978 by Mayor Dutch Morial to promote the growth and development of small businesses in our community. Since our inception, we have made major strides toward capital expansion and job creation through the SBA 503 Program.

We feel that 503 fills a "financial gap" which exists in conventional financing markets for long-term capital at reasonable rates of interest. Traditionally, if a small business needed to expand its operations in order to grow and remain competitive, it could seek financing from three sources: Commercial banks; savings and loan institutions; and insurance companies.

While banks offer commercial financing, they are, by nature, short-term lenders, thus making it difficult to undertake a major expansion project. Banks also require a 20- to 30-percent downpayment on this type of financing, and charge small businesses interest rates of 1 to 3 percent over prime, and sometimes more.

Savings and loans offer long-term financing, but have not traditionally held a sizable portion of their portfolios in commercial loans and, thus, have not been able to accommodate the overall demand from small businesses for this type of financing. In addition, the expertise of S&L's has been in the realm of residential mortgage financing, not commercial loans for small businesses.

Savings and loans also, like banks, require sizable equity cushions from the borrower, and charge rates of interest comparable to those of commercial banks.

Insurance companies are the third source to which a small business might turn for long-term financing. Insurance companies do make long-term commercial loans, but traditionally will become involved only in projects over $1 million, thus eliminating many small business expansion loans.

By themselves, these three sources of financing are generally unable to fill the need of small businesses for long-term capital at a reasonable fixed rate of interest. Left with only conventional means of financing, many businesses are unable to modernize, diversify, or expand to meet the challenges of domestic and foreign markets. This adversely affects not only the small business itself, but the economy as a whole, by limiting production, sales, tax revenues, and employment.

The 503 Program makes available long-term capital at reasonable rates of interest not traditionally available to small businesses. The program does not compete with private-sector lending institutions, but rather, provides the impetus to attract private-sector investment, with private lending institutions contributing at least 50 percent of the total financing for these projects.

This public-private sector partnership thus fills a financing gap which exists in today's conventional markets by offering three distinct advantages to small businesses:

One, a lower overall cost of capital on the project achieved by blending the bank's interest rate with the long-term Treasury bond rate offered with the 503 debenture.

Two, a longer overall term on the project, ranging from 15 to 25 years on the 503 portion of the loan.

Three, a lower equity requirement. This is generally anywhere from 5 to 10 percent.

I would like to stress that 503 is used for healthy, expanding businesses with a track record of profitability. These businesses have a need to finance long-term, fixed-assets with long-term capital. This is not a program for marginal loan situations or faltering businesses. This is evidenced by the very low loan loss rate experienced by this program since its inception.

The board of directors of Citywide is proud of its track record as a 503 CDC. Originally formed as a local development corporation offering SBA 502 loans, as well as EDA and HUD assistance from the city of New Orleans, Citywide was 17th in the Nation to become a Certified Development Co. under section 503 of the Small Business Investment Act. Since inception, Citywide has funded 36 projects totaling $16 million and providing in excess of 1,500 jobs for Orleans Parish. Of these, 13 were funded under the 503 Program, totaling nearly $9 million in project costs and providing more than 700 jobs, at an investment of less than $5,000 of SBA 503 financing per job.

Some examples of the types of businesses Citywide has assisted include a manufacturer of leather goods and accessories, a natural foods grocery store, a manufacturer of cured meats and beef wholesaler, a distributor and authorized service center for manufacturers of hydraulic lifts and power tools, a printing company, an office supply house, an industrial laundry and uniform rental company, a manufacturer of spare parts for aircraft, and many others.

In keeping with the priorities of Congressman Parren Mitchell, Mayor Dutch Morial, and our president, the Reverend Roger P. Morin, who is present with us today, Citywide has recently placed a major emphasis on aggressively seeking to finance projects being undertaken by female and minority business owners. Citywide has made three loan commitments to female and minority-owned businesses through its various programs. Two of these have closed and currently three more are under consideration.

With me here today are the owners of four businesses which have received SBA financing through New Orleans Citywide Development Corp. We feel that the case histories they will relate to you will give you a good idea of the benefits derived from this program.

In closing, I would like to say that the 503 Program has demonstrated its effectiveness at job creation and economic revitalization, with more than 3,500 companies participating in the 503 Program nationwide, and 100,000 workers who are gainfully employed as a direct result of the program. These businesses pay taxes, contribute to their communities, reduce unemployment, and stimulate competition. Further, the 503 Program achieves these goals at a minimal cost to the taxpayer, with a 1.6-percent loss rate nationwide.

I appreciate the opportunity to testify before this committee today on behalf of the SBA and its 503 lending program. I urge you to support this worthwhile agency, which is the only national agency for small businesses and which is the major source of guarantees for long-term loans for small business growth.

Thank you.

Mr. HAYES. Thank you very much, Ms. Butler. Thank you for your support and your excellent testimony. If you would remain until we hear the other witnesses, we will have a few questions we want to raise with you.

The next witness is Mr. William L. Mimeles, Torino Belts. Please proceed. As I said before, if you so desire, you can read your statement in its entirety or if not, you can deal with its highlights.

Your entire statement will be entered into the record.

TESTIMONY OF WILLIAM L. MIMELES, PRESIDENT, TORINO BELTS, INC., NEW ORLEANS, LA

Mr. MIMELES. Thank you, sir.

Mr. Parren Mitchell, esteemed congressional members, it is my honor and privilege to be appearing before this subcommittee to relate my company's experience and benefits as a recipient of an SBA 503 loan at the end of 1982.

My name is William L. Mimeles, and I am president of a New Orleans-based corporation called Torino Belts, Inc. I possess 98-percent ownership of the stock of my corporation, which has been in existence for 5 years, but has functioned 20 years prior as subsidiary of another corporation.

Torino Belts is engaged in designing, manufacturing, and distributing a complete line of high-quality men's and women's leather belts, wallets, and other fine small leather accessories. Our product is sold primarily through 17 manufacturer's representatives throughout all 50 States, as well as some limited distribution in Europe and Japan, to fine specialty apparel stores.

Our relocation was initiated by the rental property we had occupied being expropriated by the State of Louisiana to make room for the new second Mississippi River Bridge span. The SBA 503 loan gave us some very beneficial options during a time period which we were not quite prepared to make such a major move. From a financial standpoint, the benefits offered through the SBA 503 loan were quite meaningful. The 5-percent down payment, the savings on the monthly mortgage by being able to obtain it at 2 points under the market contributed to a savings of approximately 20 percent per year. Nonetheless, when you are coming from a situation where you have been paying 70 cents a square foot, one gets quite concerned with the management of this greatly increased expense to the business without draining the much-needed working capital. This loan played a very significant role in allowing us to cover those objectives. Of course, the real benefit that was derived came from the sense of pride of owning our facility, being able to create a first-class working environment, providing our people with a feeling that we all had a new permanent home. The new facility also allowed for an easier flow of operations making our business much more efficient and productive.

The community has also benefited greatly due to this move. A building that was in need of repair has now transformed our block into a more modernistic, clean area. It has furthermore brought me personally into an involvement with other owners, in a 15-block area, working collectively on making South Claiborne Avenue a more sightly, safer shopping area in the city.

Accordingly, we have increased our business over nearly 50 percent in the last 2 years, and I know that our new location has had an important role in contributing to that. Naturally, the increased business has generated increased profits, generating increased taxes, and providing increased revenues to the city, State, and Federal government. We have also increased our staff of 27 to a present capacity of 35 full-time employees.

The mix of people at Torino and their commitment to us is something we are also quite proud of. Of the present 35 people, 12 have been with us 5 years or longer, 6 have been there since 1975, and we are excited that 2 of them are going on their 15th year. Out of 35, 24 are females and 24 out of 35 represent Americans from the black, Cuban, Latin American, European, and Vietnamese communities. Three play a role in key management positions for us.

What we have given at Torino is a sense of pride, involvement, and participation on the part of all 35 people employed. We have taken people with fourth- and fifth-grade educations and trained them to take on important job functions for us. Namely, leather cutting where the utilization and the decision on quality rest clearly on their shoulders; splicers, that have the responsibility of joining exotic pieces of leather together in order to create the continuation of the skin pattern; inkers, whose skillful talents must create the polished finished edge of our product; splitters, whose job is to make sure that both the top and lining leather have the perfect weight in order to be combined that gives the belt the proper balance needed. Not to forget the 25 operations that needed skilled involved people, not machines, to create the product that our quality market expects.

All of our people participate in profit sharing, and we operate as a family because we all succeed or fail as a group. We are proud to say we have made meaningful contributions every year since its inception in 1980. We also sell the best stores throughout the country, and our people all give 110 percent towards providing the quality in both product and service that we have become noted for in such a short period.

The building that was made possible through the use of the SBA 503 Program, has created more of a sense of pride, productivity, and importance to our people than any other factor. The figures over the last 2 years certainly attest to that. The SBA Program, furthermore, left us in a position of not using up the company's line of credit with our local bank so that we could finance the day-to-day operations, which has been necessary to our expanding business. The enthusiasm that has been generated by all of this has made us more confident to go forward with expansion plans for new products, computerization, and more state-of-the-art manufacturing equipment for the future.

President Reagan has a formidable task of trying to balance a budget that has a $200 billion deficit. I totally support the premise that this needs to be a first priority, and above all, that groundwork should be set in motion that will work toward this end with a prudent, organized and long-range plan. And although I, by no means, want to be presumptuous to compare my little small business with the enormous task of running the complexities of our Government and the business acumen needed to run it, but I have personally felt that resolving financial and business problems have always been a matter of two-pronged attack, increasing the sales or income, and at the same time, decreasing expenses and overhead prudently.

Entrepreneurship is the key word of the eighties that has supplemented the spirit, commitment, and hard work that this country has been built on over the past 200 years. Why attack a program that supports and encourges these concepts? Isn't it through successful programs like mine that are going to generate more jobs for people, additional revenue for the Government? Isn't the SBA Program a viable vehicle for the minimal investment that the Government is making, to produce increased sales, income? What is more poignant today than to look at our tremendous trade deficit, and to see that the only way we can compete with Japan is by placing restrictions on their goods coming in or coerce them into opening up their restrictions on imports from this country?

The one situation that is going to help address these problems, and at the same time, make some contribution to reduce our own budget deficiencies is by putting people in meaningful permanent jobs that will add money into the Treasury and making us more competitive in a world market.

It has to come from the heros that our President is looking for. People, small business people, with creative ideas, energy and enthusiasm that can build a real need for their high quality products and services on a worldwide basis. Our Government needs to promote this, not cut it off. What better vehicle to help foster this concept for the countless thousands of small business people, like myself, than to provide that opportunity to make America competitive again.

Mr. Mitchell, I appreciate this opportunity to express my concern over what the elimination of the SBA 503 Program would mean to other motivated, qualified companies like mine, and the country as a whole.

I wish you and your committee much success in their endeavors, and hope I have been able to shed some light on these deliberations.

Mr. HAYES. Thank you, Mr. Mimeles, for your statement.

Mr. Roy.

TESTIMONY OF PETER A. ROY, PRESIDENT, WHOLE FOOD CO., INC., NEW ORLEANS, LA

Mr. ROY. Chairman Mitchell, Congressman Hayes, it is truly an honor to speak before you on behalf of the Small Business Administration.

My name is Peter Roy. I am president of the Whole Food Co., Inc., in New Orleans, LA. Currently, the company operates two retail specialty food stores with a combined annual volume of $5.4 million, and employs 97 people.

The company was founded in 1974 on $3,000, and an idea that New Orleans needed a small, friendly natural foods store with affordable prices. When the doors first opened in 1974, the company had but two employees and $800 in inventory. The volume the first 12 months was only $180,000, but sales were building. We had struck a chord in New Orleans, and it was obvious that what we were providing to the community was something the community needed. We were slowly but surely becoming successful. By 1980, our business was quoted in the Trade Journal as being the highest-volume natural food store per square foot in the country. We were grossing $1.2 million out of 1,500 square feet of retail space.

We had expanded our business considerably to reach beyond what most people consider the typical food shopper, and we were now appealing to the quality-conscious, gourmet consumer and had begun to offer the highest quality perishable foods in the city of New Orleans and drawing a lot of people. It was obvious to us we could support a larger store. I found a location about 5 miles from our current store. It is in the midcity area of New Orleans, a run-down area. The building was in very poor repair, being operated as a Latin American supermarket, and quite unsuccessfully.

The owner was very interested in selling. We approached him about coming into the building, and we struck a deal, signed a purchase agreement. I went out to go and try to seek financing for this project, and I was 22 years old, had a successful business, but had no business degree, had not been to college, did not have a lot of things going for me in terms of the traditional lending market. At that time, I was only interested in trying to obtain financing to purchase the building. I didn't think there was any chance of me getting money to buy new equipment and do the renovations that were needed.

I found I was even having difficulty getting a loan on the building because of the current state of repair. People were not interested in that building. One lending institution told me quite frankly, if you are interested in that building, we are not interested in you.

It was through an article in a weekly newspaper about Whole Food Co., the writer of the article told me about New Orleans Citywide Development Corp., recently formed.

I went to Citywide, and I met Elizabeth Butler there, and it was like manna from heaven, all of a sudden, not only did I have a good chance of getting the funding that I needed, but she told me there was a very good possibility I could get the funds needed to buy new equipment, to renovate the building.

I was going to have to come up with less money with the Citywide Development Program, in terms of equity participation, than I would had I just gotten a traditional loan just to buy the real estate.

So at that time, I decided to really try to create the store that I wanted to create, got the architects, the plans together, and had a loan for $440,000, a loan package approved through the SBA 502 Program, predecessor to the current 503. In that program, Citywide had structured it so that a private lender would go and take 60 percent of the total loan at market rate of 2 over prime. The SBA would come in for 30 percent of the loan at 8.25 fixed, and the city was going to come up with 5 percent of the loan at 8.25 fixed. This reduced buy capital requirement so significantly we were able to go out and buy all the equipment we needed, to do quite extensive renovation on the property.

I now can say without any question that had I gone into that store with my original plan of going in and just taking the products off the shelf, putting a little paint on the walls, we would not have made it.

The environment we created was vital to our success there. That store currently is doing $4.2 million in annual sales, now one of the highest volume per square foot stores in the country, our current level. We have 70 people working at that store, 40 full-time, 30 are part-time; 10 of these positions are in management, with the balance being sales clerks and cashiers. Of these positions, 50 have gone to women or minorities. Our payroll taxes just in this location this year will be approximately $60,000. Whole Food Co. has also, particularly this location, given another real significant benefit to our community.

We moved into an area that was somewhat run down. It had been one of the older areas in New Orleans and gone downhill a little bit. People were moving out of the neighborhood. Real estate values there were not near what they are today. After we came in, things began to turn around in that neighborhood. We have 6,000 people a week that come shop at that store. Our typical customer is highly educated and has some disposable income. All of a sudden, that area of New Orleans began to rejuvenate. There was an article in the Times Picayune. Whole Food Co. was cited as one of the causes of this rejuvenation. Two restaurants have opened up within several blocks of our store. They are making their business on our customer base. Looking back over the past 3½ years since that location opened, I would not have been able to be successful there without the help from Citywide and SBA.

I urge this committee and Congress to keep the SBA, that I could not have done it without help, and this has been a very good investment. On behalf of the Federal Government, on behalf of the city, that we have provided obvious benefits to the community and will continue to do so.

I probably will never need SBA help again. I hope I don't. We are planning to expand over the course of the next 5 to 10 years, and in about 6 years, we will be employing 350 people in New Orleans, paying a very substantial amount of taxes.

I got my start through the help of the SBA, and I am sure there are other business people out there like myself that need that assistance at the beginning, and I urge you to keep SBA alive. I think it is a very valuable program.

I feel honored and lucky to have participated in it when I did.

[Mr. Roy's prepared statement follows:]

PREPARED STATEMENT OF PETER A. ROY, PRESIDENT, WHOLE FOOD CO., INC., NEW ORLEANS, LA

My name is Peter Roy. I am president of the Whole Food Company, Inc. in New Orleans, LA. Currently the company operates two retail specialty food stores with a combined annual volume of $5.4 million, and employs 97 people.

The company was founded in 1974 on $3000, and an idea that New Orleans needed a small, friendly natural foods store with affordable prices. When the doors first opened for business, the company had but two employees and $800 in inventory. The volume the first twelve months was only $180,000, but sales were building.

It was clear Whole Food had struck a cord in the New Orleans market, and we began to see that there was great potential for growth if we could reach out beyond the typical natural foods shopper, and embrace the needs of the emerging quality conscious generation. After switching our emphasis to high quality perishable foods, such as gourmet cheeses and produce, business began to explode. By 1980 we were said to be the highest volume natural foods store per sq. ft. in the country by an industry trade journal. We were grossing $1.2 million out of 1500 sq. ft. of retail space, and it was obvious that we needed and could support a much larger store. We wanted a store where we could expand our product selection to include a meat and seafood department, a bakery and a deli. We needed at least three times the space we currently had to do this.

I found a suitable location in the mid-city area of New Orleans. It was being operated as a super market, however unsuccessfully, and the owner was interested in selling. At this point my plan was to seek a loan to purchase the building, and only do the bare essentials in renovation. Being 22 years old, having never borrowed money before, and being faced with trying to sell lenders on what they considered to be a risky project at best, I was not optimistic about my chances to obtain funds for new equipment or substantial improvements to the store.

After trying unsuccessfully to obtain conventional financing through the private sector, I approached the New Orleans Citywide Development Corporation in hopes they might be able to help us with our expansion plans. Finding NOCDC was like manna from heaven. Not only did it look like that they would be able to help us finance the purchase of the building, but they could finance the purchase of new equipment and renovation to the building as well. With 35 percent of the loan package carrying a 8.25 percent interest rate, and our equity requirement only 5 percent, we were able to borrow all of the money we needed to create the store we wanted.

A loan package for $440,000 was approved under the SBA 502 program. The loan was structured so that a private lender would loan 60 percent of the project at two points over prime, the SBA would loan 30 percent of the funds at 8.25 percent, and NOCDC came in for 5 percent of the project, also at 8.25 percent interest. The property was purchased and after a four month renovation, the store opened for business in October 1981.

Today that store is doing $4.2 million in annual sales and employs 70 people. Of the 70 jobs this store created, 40 are full time, and 30 part time. Ten of these positions are in management, with the balance being sales clerks and cashiers. Fifty of these positions have gone to women or minorities. Payroll taxes will be approximately $60,000 this year.

Another benefit to the community has been that the area around the store has undergone a significant revival since our opening. Real estate prices have increased about 15 to 20 percent. The renaissance in the neighborhood was the recent topic in a feature story in the TIMES-PICAYUNE newspaper. The article cited the fact that much of the re-development in the area has taken place since the opening of Whole Food Company. The store draws approximately 6,000 people a week, the majority of whom have high disposable incomes and educational levels, which has created a favorable environment for other businesses to open in the area. Two new restaurants have opened within two blocks of our location within the last three months.

Looking back over the past three and a half years, I can now say that without help from the SBA and the New Orleans Citywide Development Corporation, the Esplanade Whole Food Company would not be in business today. Had I been able to obtain financing only to purchase the building, and none to do the improvements or to buy new equipment, we would have opened and failed.

We now know how vital the store environment that we created is to our customer appeal. Only with SBA help were we able to obtain the necessary funding to make our business successful.

I urge Congress to keep the SBA alive. I will probably never need SBA assistance again, but without their help at the crucial time, we would not be providing the benefits to our community that we are. Our company has great growth potential and within five years will probably be employing 300 people with an annual payroll in excess $3.5 million. Surely the loan and guarantee provided by the Federal government, through the SBA, to Whole Food Company has been of benefit to all.

Mr. HAYES. Thank you, Mr. Roy.

Your experience is beneficial to us. Using that cliche, "You are one in a million." You said you were 22 years old. Now, I guess you are 33?

Mr. Roy. No, I am all of 28 years old. I feel like I am 60 sometimes.

Mr. Hayes. Mr. Scariano.

TESTIMONY OF JACK J. SCARIANO, JR., PRESIDENT, SCARIANO BROS., INC.

Mr. Scariano. Good morning, ladies and gentlemen. I appreciate the opportunity you have given me to speak before the House Small Business Committee today. I am Jack J. Scariano, Jr., president of Scariano Bros., Inc., recipient of an SBA 503 loan.

Scariano Bros. are the manufacturers of cured meats and wholesalers to retail grocers and meat markets in southwest Louisiana and the Mississippi Gulf Coast area. The company was founded as Nola Beef Co. in 1935 by my father. The company was incorporated in 1971 and the name changed to Scariano Bros., Inc., in 1973. At that time, my brother John and I assumed control of the company as vice president and president.

In 1981, our sales level mandated the acquisition of additional equipment; that is, a refrigerator, beef cooler, and rail system. Our 6,500 square foot facility at 7850 Townsend Place could not house this new equipment; therefore, an expansion to an additional site was necessary.

The company undertook the project of developing a vacant piece of land adjacent to our current site. Our plans were to construct a 5,000-square-foot building which would allow direct access to our current production area.

When we went out to the financial community seeking funds to do this project, we were unable to find financing on a long-term basis at rates we could afford. We therefore approached New Orleans Citywide Development Corp., who were able to put together a financing package which we could handle.

Citywide was able to help us put together a loan package whereby the private lender provided 53 percent of the loan funds, the SBA 33 percent, 4 percent from the city of New Orleans HUD community development block grant funds, and 10 percent of our own capital.

I feel that the SBA 503 Program provided many benefits to us. This loan enabled us to expand our operations to meet sales demand. It provided us with a new facility and up-to-date equipment to remain competitive in the local industry. I feel that the SBA 503 loan also helped this community and the economy. It helped the local community because a vacant piece of property was developed. When sales increased, more tax revenues were generated and employment increased.

When the loan application was made, our employment was 26 people. We now have 34 employees, 3 of which are women and 12 minorities. Our job breakdown is eight employees are in the processing department; three employees in the receiving department; six employees in the shipping department; five employees are truck drivers; five employees are clerical staff; five employees are in sales; and two employees are management, my brother and myself.

Our expansion would not have been possible without the SBA 503 Program, and many of the employees that we have today would not have the jobs they are holding. I endorse the SBA 503 Program because I know it has worked for me. I urge the House Small Business Committee to express its endorsement of this program to the House of Representatives.

Thank you for allowing me to speak to you today. Also, I would like to add a comment that in 1977, we applied for and received an SBA loan which, at that time, moved our facility from an antiquated facility to a new building.

And at that time, we had approximately 9 to 10 employees, so this recent 503 Program increases from approximately 26 to 34, but significantly, from 1967, we went from 9 to 10 employees to 26 and through the 503 Program, from 26 to 34, so the SBA total package for us has been very dramatic.

Mr. **Hayes.** Mr. Beerman.

TESTIMONY OF RALPH R. BEERMAN, PRESIDENT, BEERMAN PRECISION, INC.

Mr. **Beerman.** First of all, can everybody hear me?

Mr. **Hayes.** Oh, yes.

Mr. **Beerman.** Good morning, ladies of gentlemen of the House Small Business Committee, I appreciate this invitation you have extended to me to speak before you today. I am Ralph Beerman, president of Beerman Precision, Inc., and we are a recipient of the SBA 503 loan.

At the moment, I would like to say that I feel like a grandfather compared to these fellows over here. I have been in business since the end of World War II and served in the U.S. Army for about 4 years, and shortly after that, when I was discharged, 2 years later I opened up a small shop which I called Beerman Precision Machine Works. This shop repaired valves and hydraulic jacks and served as an authorized service center for the jack manufacturers primarily, and served throughout Louisiana and Mississippi.

As time went on, the service was extended to related types of shop equipment such as portable electric and pneumatic tools. Today, the company now known as Beerman Precision, Inc., has service arrangements with 55 manufacturers.

Early in 1980, I recognized the impact that imports were going to have on the American tool market. To meet the challenge of low-cost imported tools, it became necessary to enter into not only the servicing of tools, which was our primary objective, but also the sale of tools.

The company's facility at that time was cramped and would not allow for any growth or expansion. A site was needed that would provide additional room for inventory, a suitable display area, and parking. With the aid of an SBA 503 loan, I was able to purchase and renovate a piece of property which gave us under the roof 20,500 square feet of space, a better location, better facilities for security, and offstreet parking. We got quite a bit of ground along with what we purchased. We got a whole acre of ground, something I never dreamed of.

The SBA 503 Program played a vital part in enabling me to secure this facility since I was unable to find financing on a long-term basis at a rate and term I could afford. New Orleans Citywide

Development Corp. was able to help us by putting together a loan package wherein the private lender provided 43 percent of the financing, the SBA 503 provided 43 percent, 5 percent came from the city of New Orleans' HUD/CDBG Program, and I injected 9 percent.

This loan enabled me to meet the challenge of foreign imports. It allowed me to maintain the employment of 34 people, including 13 women and 8 minorities. The job breakdown is as follows: 6 employees are mechanics; 15 employees are clerical; 2 employees are truckdrivers; 5 employees are in purchasing and parts warehousing; 2 employees are in sales; and 4 employees are management.

I feel that the SBA 503 provided me with many benefits. This loan enabled me to expand our operation to meet the challenge of the foreign import market. It provided me with an attractive facility to go into the sale of power tools and jacks. I feel, too, that this program has helped the community because a neglected piece of property was renovated. It is a very handsome place now. Our renovation has spurred many changes in the neighborhood. The area is cleaner. Other owners have also renovated their property. My employees have benefited, also. Clerical staff has had training in the use of computers and mechanics have had factory and on-the-job training programs. We have many programs that upgrade our people.

I endorse the SBA 503 Loan Program because of the benefits I see derived from it. I urge you members of the House Small Business Committee to express your endorsement of this program to the House of Representatives.

Thank you for allowing me to speak to you today.

Mr. HAYES. Thank you, Mr. Beerman.

Ms. Butler, I think you have every reason to be proud of the service that Citywide has been able to render, and the examples that you have placed before us today.

One question that I must ask you is, if SBA goes out of business as is being proposed by this administration, since you came into being as a result of action by Mayor Morial to assist small businesses: Would this department continue to exist or could it continue to exist?

Would there be any reason for it to exist?

Ms. BUTLER. Congressman, I think I could say with confidence that if the 503 Program or if the SBA was eliminated, we would no longer have a viable tool to offer long-term financing to small businesses, so it is critical to the advancement of this program in New Orleans that SBA remain intact.

Mr. HAYES. Mr. Roy, you would probably no longer have the need for SBA which means that you are financially stable, but you also indicated that you support the existence of the agency, because others who are trying to get into business, particularly small business, would undoubtedly need SBA's assistance, through the 503 Program or some such similar program.

I appreciate the unselfish approach that you have taken. Some have the tendency to forget others, and I wonder about the rest of you; have you repaid your loans yet?

Mr. SCARIANO. From the original SBA loan, we have liquidated approximately $100,000 already. That is in 7 years. We have not repaid the loans. They are still active.

Mr. HAYES. You are current in the payments?

Mr. SCARIANO. Current in the payments, never have been behind, to the best of my knowledge, and in regard to the employees that we have, we have been able to take a lot of hard-core unemployed, which are mostly from the black community, and we have been able to provide these people with proper health insurance that we pay for 100 percent, and therefore, they can take care of themselves and their families with the proper medical attention quickly and very easily for themselves.

They all participate in profit sharing, and all employees do with our firm, and as a side note, it would be a shame if other people in years to come could not have the same opportunity not only to join the business community, but also to provide jobs for people of our community that so dearly need it.

Thank you.

Mr. HAYES. Mr. Mimeles.

Mr. MIMELES. We have maintained our payments on a monthly basis. We initiated the note, the end of 1982, and have currently met our obligations on a monthly basis.

If I had not, this lady over here would be in my office, and I think it is like anything else, you have got to get responsible people. You have got to get qualified people, and that is a tremendous job for you to do.

I cannot express the amount of work that Liz Butler has done in qualifying the use of this money. It was very, very difficult. She wants to make sure that the people who want the opportunity are serious about it.

It is not going to be misused, and when you put the two together, when you have the backing of an SBA Program and you have got qualified agencies working with the Government, like Ms. Butler and her organization, you have got an unbeatable combination that are going to allow people like Mr. Roy, and like myself, and countless other Americans to be able to experience their dream, to be able to build a business, to be able to build something for themselves and share it with other people.

I think you get a group of agencies around this country with the type of enthusiasm and the business acumen that these people have, you have got a very viable program.

Mr. HAYES. Mr. Chairman.

Mr. MITCHELL. Thank you, I, too, want to express my gratitude to all of you. This was singularly impressive testimony. I only wish that the little fellow from the Office of Management and Budget, David Stockman, who wants to destroy SBA, could be here to hear this kind of testimony.

It would also be highly beneficial for Senator Dole to have heard this type of testimony. He just struck a quote "compromise" agreement with the administration to dismantle SBA.

I don't think that makes sense. Let me play the devil's advocate for a moment. I have my business. All four of you have your business, and I go screaming into David Stockman and say:

> This is unfair, those four businesses received an advantage over me. They were able to get loans at a lesser rate with a longer time to pay out. That is not a part of the free enterprise system, to set up some mechanism by means of which four guys sitting over there get a head-start advantage over me. It is unethical, un-American, anti-free enterprise system.

How do you respond to that? I have my answer, but I will hear from you first.

Mr. Roy. I really feel that what the SBA financing is doing is filling a current gap in the existing financial markets. I could not go out and get a loan through the private sector when I was attempting to do so, without the SBA guarantee.

There were many reasons for this. I think that my age, my lack of business experience, my lack of an MBA degree, being in a business at which time was considered to be flaky by many lending institutions, I was in a situation that I couldn't do it without the SBA.

To me, I look at the SBA strictly as a last resort, and said, I never felt I would go back and need SBA financing again.

I am playing in the free market now, but I feel very strongly that it was a very good investment, and not unfair to anyone, that I was able to seek that funding through the SBA, receive the loan guarantee, plus the direct loan, and be able to go into business.

It is an obvious good investment on everybody's part, and I couldn't do it any other way.

Mr. Mitchell. Any other comment?

Mr. Beerman. Yes; I don't see where it is a particular privilege, say, for us four, I think it is open to anybody. I don't think there is any discrimination.

Mr. Mitchell. OK, I don't need to answer any more. That would be my position, Mitchell, if you are a hotshot businessman, why weren't you there doing the same thing these guys were doing? It is not a discriminatory program. I wanted to hear it from you. It is a matter of whether a person is savvy enough, can go to them and get helped in a realistic fashion.

I don't want to cut you off. He said what I want you to say, the inability to recognize what is available to people to help them to succeed.

One or two more questions.

The overall failure rate, the loan loss rate is phenomenally low at the national level, 6 percent. What is it here in New Orleans?

Ms. Butler. I am glad you asked me that question. We have had no failures. So far, we do have one loan that is in a reorganization posture. However, we do feel that their reorganization plan will enable them to repay the loan, but out of a total of approximately 20 development company 502–503 deals that we have done, we have only had that one, and even that one is not in total default at this time.

Mr. Mitchell. For all four of you gentlemen, was your loan application handled expeditiously? We have had some situations, not in 503 but in other programs, where a loan application has been made, and 9 months later, it is approved, by that time, the guy has thrown up his hands in despair and moved on to Dubuque.

Mr. **Beerman**. I think they were handled very well. This is the first time that I have ever done anything with the Government, that I have asked for any kind of aid or looked for any.

In my dealings with this body, the New Orleans Citywide, I found that they were very discriminate about who they were dealing with. The whole thing was handled to make sure that the people they were dealing with were substantial, that could meet their obligations.

A thorough examination was made of us and I am sure of everybody else here, of what we look like and what we were doing and what do we propose to do in the future, and it was well done.

Mr. **Mitchell**. From application date to approval date, how much time?

Mr. **Mimeles**. Five months.

Mr. **Beerman**. I think it was about 5 or 6 months.

Mr. **Scariano**. Approximately 4 to 5 months.

Mr. **Roy**. In my case it was only about 3 months, and to mention that we did not receive the funding for another, I think, it was close to 1½ years; and that was my problem. I was not able to get the gentleman to follow through with the agreement to purchase and Citywide had to go back two or three times, I believe, and get the loan extended, the offer to extend, so mine was taken care of very efficiently. I was given a lot of leeway in the fact that I was not able to deliver my end of the bargain, and they held up theirs.

Mr. **Mitchell**. If processing takes 3 to 6 months, that is not too bad.

Congratulations to all of you. I have one point of concern. Everybody knows that I have been championing minority business since I have been in the Congress.

I thought you said, Ms. Butler, that 36 projects have been approved, of which only 3 are minorities. I get a little shaky about that, because sometimes I advocate 10 percent. Yet, when it gets transferred into 3 out of 36, that kind of percentage annoys me. I am not denigrating your evidence. It is incredibly important that we develop with all our resources as fast as we can a really strong minority entrepreneurial base in this country.

You can't have it both ways. You have to offer a viable option and entrepreneurship is a viable option.

Thank you very much.

Mr. **Hayes**. I want to thank each member for having presented to us excellent testimony which I am sure will be helpful.

Let me sound what is a word of warning. We appreciate your help. We need you to contact others who are members of both sides of the aisle, who are Members of both Houses of Congress who are not yet convinced that the Small Business Administration needs retention.

We have some support from Members of your State who are in the House of Representatives, I know, but please help us to at least convey to them your experience, your thinking on the continuing need for this kind of program. We are not opposed as members of the Small Business Committee to trying to reduce the deficit. But when we have the kind of program that emanates from this agency, and has such reaching, ripple effects, as each of you have testified in terms of the number of jobs that you are now currently giving to people, that helps the total community. And the city of New Orleans is one of the best examples of the success of our Government in being able to help members of our society become gainfully employed and earn a decent living.

Keep in mind the affirmative action factor which my chairman mentions here. You had suggested that you are employing so many women and so many minorities. As he has indicated, increase that number, and I am sure as you proceed, additional funds will permit the opportunity to hire additional persons.

Thank you.

Panel No. 2, will you come forward please? Mr. Dave Moore is from Technical Compression Services, Inc.; Mr. Allison B. Randolph is from Ran-Der Industries, Inc.; and Ms. Jeanne Paysse is from Paysse's Apothecary.

We have copies of your entire statements.

TESTIMONY OF DAVE MOORE, GENERAL MANAGER, TECHNICAL COMPRESSION SERVICES, INC.

Mr. MOORE. Thank you for the opportunity to be here. I want to express the desire of our president to be here, but he is in the hospital and regrets very much he could not be here.

I am the general manager. We are a company that is fairly strong in the gas compression industry here in Belle Chasse, LA.

In 1975, Teledyne Associates was closing the division they called Automation Associates here in Belle Chasse, LA.

A gentleman by the name of William Loudon, president and primary owner, and two of his associates negotiated a purchase agreement with Teledyne. After the agreement was struck, they realized, as many young businessman do, that they could not find the proper place to get the financing. The SBA and a certified public accountant who we still use, they put together a package guaranteeing a 90-percent loan. At that point there were approximately three people within the company. Due to an escalating growth curve in 1979, the SBA again was called on for a $500,000 loan, with part of which we paid off the $70,000 as part of that $500,000.

We diversified our expansion and now employ approximately 95 people. We have sales of $8.3 million a year.

In turn, I can only tell you what our company has been able to do. I think it is more important when you mention certain figures about the SBA is only able to help. Well, you were only able to help one here which gave a hundred jobs. It also spends $5,230,000 per year in 1984 in the New Orleans area of total purchases, including travel, entertainment, et cetera, by company expenditures, telephone bills, gas company. Our payroll is $3,097,000 for these people.

I myself pay enough personal income taxes. If you relate that $3 million on an income tax base, you exceed the type of payback. The SBA itself has been very helpful. I think we probably have one of the dustiest files on record.

We are current. We are paid up, and we appreciate it. Thank you.

[Mr. Moore's prepared statement, with attachments, follows:]

PREPARED STATEMENT OF DAVE MOORE, GENERAL MANAGER, TECHNICAL COMPRESSION SERVICES, INC.

Automation Associates was purchased from Teledyne Industries in 1975, by William Loudon and two associates. Teledyne of Dallas planned to close the company and Bill and his associates negotiated the purchase of same, but were unable to obtain financing through local banks. At this time, Bill Loudon and his accountant approached the SBA and were successful in securing a $70,000 loan through First National Bank of Jefferson, in that the SBA was willing to guarantee 90% of same. This allowed them to purchase A.A.I. from Teledyne and begin what was later to become a thriving business.

During 1976, the company diversified into other areas related basically to the repair and maintenance of natural gas and engines and compressors. During 1977, additional qualified personnel were added, and the shop and field capabilities were expanded. In 1979, Small Business Administration again supported our company with a $500,000 loan through Delta Bank to maintain the escalating growth curve.

Over the years, T.C.S. has diversified and expanded its operations into a comprehensive total scope gas engine and compressor service company. T.C.S. now employs over 90 personnel in the Metropolitan New Orleans area, including Belle Chasse, LA.

We have included some other pertinent data, such as gross sales, outside purchases, i.e. dollars spent for parts inventory and outside purchases, etc., payroll, etc., that explain how these loan guarantees have helped our company.

TECHNICAL COMPRESSION SERVICES, INC.

TECHNICAL COMPRESSION SERVICES, INC.

ANNUAL SALES

1975 - 1984

1975 - 194,769 (7½ months)
1976 - 820,327
1977 - 1,757,123
1978 - 2,971,519
1979 - 5,454,282
1980 - 7,089,432
1981 - 7,535,171
1982 - 7,014,159
1983 - 6,991,021
1984 - 8,345,562

2206 Engineers Road
P.O. Box C
Belle Chasse, Louisiana 70037
(504) 392-2600

TECHNICAL COMPRESSION SERVICES, INC.

TECHNICAL COMPRESSION SERVICES, INC.

TOTAL PURCHASES
1975 - 1984

1975	-	$ 124,263	(7½ months)
1976	-	$ 513,165	
1977	-	$ 1,169,815	
1978	-	$ 1,801,572	
1979	-	$ 3,586,876	
1980	-	$ 4,875,537	
1981	-	$ 4,833,410	
1982	-	$ 4,779,863	
1983	-	$ 4,244,759	
1984	-	$ 5,023,188	

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TECHNICAL COMPRESSION SERVICES, INC.

TECHNICAL COMPRESSION SERVICES, INC.

ANNUAL PAYROLL

1975 - 1984

1975	-	$ 72,946	(7½ months)
1976	-	$ 340,268	
1977	-	$ 733,577	
1978	-	$ 1,133,605	
1979	-	$ 1,971,488	
1980	-	$ 2,391,499	
1981	-	$ 2,875,899	
1982	-	$ 2,312,067	
1983	-	$ 2,754,961	
1984	-	$ 3,097,170	

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P.O. Box C
Belle Chasse, Louisiana 70037
(504) 392-2600

TECHNICAL COMPRESSION SERVICES, INC.

BRIEF HISTORY AND RESUME
OF
TECHNICAL COMPRESSION SERVICES, INC.
(Formerly: Automation Associates, Inc)

2206 Engineers Road
P.O. Box C
Belle Chasse, Louisiana 70037
(504) 392-2600

I. INTRODUCTION

A. Company History

Automation Associates, Inc. (A.A.I.) was purchased from Teledyne Industries in 1975. At the time of purchase, A.A.I. was primarily associated with the design, manufacture, installation and service of pneumatic, electronic and hydraulic control systems for the oil and gas industry.

During 1976, the company diversified into other areas related basically to the repair and maintenance of natural gas engines and compressors. Sizeable investments were made in purchasing precision machine shop equipment and expanding field operations.

During 1977, A.A.I. added additional qualified personnel and expanded its shop and field capabilities. T.C.S. is now one of the strongest service companies in south Louisiana, employing over 90 personnel and handling all aspects of engine and compressor operations. Emergency field and precision machine shop service is provided on an around-the-clock basis.

Over the past number of years, Automation Associates, Inc. has diversified and expanded its operations into a comprehensive total scope gas engine and compressor service company that has been built on what we feel to be a very strong engineering base. For these reasons, we felt, the name: Technical Compression Services, Inc., which became out new name in the spring of 1984, better depicts the scope in which we operate today.

T.C.S. gross sales for the year 1984 was Ten Times the 1976 sales figures.

B. Company Management

A closely knit group of professionals comprise the first line management team. Their diversified backgrounds provide stability to the company's broad base. Responsibilities and backgrounds are as follows:

1. BILL LOUDON, JR. - PRESIDENT

Overall responsibility for long and short range company policies, strategies, and goals of Technical Compression Services, Inc.

Graduate of Louisiana State University in Mechanical Engineering. Fifteen years experience in experimental stress analysis, machine design, machine shop operation, compressor parts design and overall compressor operation and maintenance. Bill is a professional engineer, registered in Louisiana.

2. RONALD DESFORGES - SECRETARY/TREASURER

Shares responsibility for shop and field operations with primary efforts toward customer contact and "personalized" service.

Extensive experience in designing and supervising repairs and manufacturing of new compressor parts, automated lubrication systems, and chemical injection systems. Ronnie has supervised and assisted in installation and service of capital equipment in gas plants and production departments of major oil companies.

3. GEORGE G. REDINGER - VICE-PRESIDENT OF INSTRUMENTATION

Responsible for design, fabrication and installation of pneumatic, hydraulic and electronic control systems.

George has 15 years experience designing, fabricating and supervising the installation of pneumatic, hydraulic and electronic safety and control systems in the oil and gas industry.

4. CARROLL W. WEATHERS - HEAD OF ENGINEERING

Graduate of the University of New Orleans in Electrical Engineering. Responsible for all theoretical, analytical, and applications engineering in addition to administration of our Predictive and Preventative Maintenance Group.

Carroll has eight years experience in machine design, engine and compressor analysis, maintenance engineering, overall compressor operations, and computer simulation of compressor machinery.

5. DAVE MOORE - GENERAL MANAGER

Graduate Maine Maritime Academy. Responsible for overall management and over reviewing of all company operations.

Dave has five years experience in the Merchant Marines, ten years in the steel industry and four years in the gas industry.

6. LARRY FONTAINE - WESTERN DIVISION MANAGER OF SALES AND OPERATIONS

Graduate of the University of Massachusetts. Responsible for institution and development of the Western Division based in Lafayette, Louisiana. This expansion is currently in progress and has the goal of becoming a complete service center in the very near future.

Larry has ten years experience in machine design, machine shop practices, overall compressor operations, and supervision of projects associated with Natural Gas Compressors.

7. JAMES R. POSEY - SERVICE MANAGER

Major responsibilities consist of Management of Field and Shop Mechanical Services.

Ten years experience in construction, fabrication and supervision of Unit Packaging and assembly of projects revolving around oil and gas productivity and specific Natural Gas and Engine Compressors.

8. NOAH KENNEDY - PLANT SUPERINTENDANT

Shares responsibility for shop and field operations with primary efforts toward customer contact and "personalized" services.

Noah is a journeyman machinist with ten years of experience in preventative maintenance, engine analyzer operation, machine design and large horsepower integral compressor units.

9. GERALD MEINECKE - OPERATIONS MANAGER

Major responsibilities include overviewing of major field repairs from job scope definition to hands on participation and customer contact. Gerald has six years experience in servicing all types of compressor packages, and coordinating the efforts of 30 to 40 shop and field personnel.

II. COMPANY CAPABILITIES

Today, T.C.S. offers a totally engineered service and maintenance organization for Natural Gas Engines and Compressors. T.C.S. is a diversified company offering 24-hour emergency service in the following areas:

A. Precision Machine Shop

T.C.S. specializes in engineering the redesign of engine and compressor components for an extended and more efficient operating life. Included in our repair and manufacturing capabilities are:

1. Reclamation of power pistons and skirts.
2. Precision grinding of new and metalized compressor rods.
3. Manufacturing and repair of aluminum, cast iron and steel compressor pistons.
4. Metal spraying to restore metal surfaces to original or improved condition.
5. Reclamation of compressor cylinders, including valve seat repair and relining capabilities.
6. Reclamation of connecting rods, crossheads and sub assemblies.
7. In shop and on job-site field machining, such as line boring, valve seat refacing and custom repairs requiring unique set-up.
8. Optical alignment through the use of a precision optical telescope with optical square, jig transit, or precision level.

B. Natural Gas Engine and Compressor Service and Maintenance

Service technicians specializing in total field overhauls and troubleshooting of engines and compressors are available on a 24-hour basis. Our shop is equipped to handle major overhauls of engines and compressors. Turbochargers of all makes and models are rebuilt. Ultrasonic, dye check and magnaflux equipment is available for shop or field use as well as, a vast array of portable field machine tools. T.C.S. has the capability of handling boring and facing operations, as well as, power cylinder head servicing on job site.

C. Instrumentation

Total instrumentation capabilities covering all phases of oil and gas production. Instrumentation expertise is available in the design, fabrication and installation of:

1. Complete platform and plant process control systems.
2. Platform and plant safety systems.
3. Fire control systems.
4. Compressor lubrication systems.
5. Engine and compressor controls systems.
6. Electronic panels for oil and marine industry.

Facilities are available for full in-shop testing of control systems prior to field installation. Specialized instrumentation technicians are available on a 24-hour basis for field installation and troubleshooting.

D. Preventative and Predictive Maintenance Program

T.C.S. has expertise and experience in the development of preventative and predictive maintenance programs.

Beta Analyzer equipment and highly trained operators are available on a contractual or as-needed basis. Each operator is accompanied by a trained mechanic for immediate on-site correction of operating problems. Special forms are prepared for the specific engines and compressors containing data points to be reviewed on a routine basis.

E. Ignition Systems

We offer the design and fabrication of new shielded and unshielded ignition systems or pyrometer systems as well as the repair of existing systems. We have complete in-house testing facilities as well as a large parts inventory. We work on all types of systems, such as Altronic, Fairbanks Morse, Bendix, Magtronic, etc. Our ignition technicians also offer immediate response in the form of field service.

F. Air to Fin Coolers and Heat Exchangers

We offer shop or field retubing of your complete coolers, single cores or miscellaneous tubes as well as complete structural repair if necessary. All units are hydrostatically tested at 1½ times maximum working pressure. Additionally, we offer internal and external cleaning of your fins and tubes.

G. Engine/Compressor Parts

We offer a large parts inventory as well as ready access to all compressor components, new or used. Our parts men are eager to assist you regardless of the make or model of your unit.

We feel as though the strength of our business lies in our fully engineered, total scope approach to servicing the oil and gas industry along with our immediate response in an on-going effort to help maximize your "on-line" availability.

H. Examples of Repairs Performed in the Past

1. Installation

Design, fabricate and install two complete pneumatic control systems for offshore operation of I/R KVS-12 2000 H.P. 3-stage gas compressor utilizing materials compatible to a salt environment. Each system incorporated a pre-lube, post lube, permissive start mode, along with the monitoring of 32 functions. All components were supplied, installed, tested and put in operation by T.C.S. personnel.

2. Machine Shop

Redesigning Hyplex cylinder assemblies previously used on a 17" stroke HBA Clark in 8000 p.s.i. service. This job employed failure analysis after extracting metal coupons from the cylinders, along with designing, manufacturing, installing additional support bands on the cylinders. Each cylinder was hydrostatically tested to 1½ times working pressure prior to customer acceptance. The tandem piston and rod assembly was redesigned to allow for a longer stroke and was completely modified in the "joint" area between the 2nd stage piston and high stage plunger. All pistons and rods were sent out for induction hardening then machined, ground and super-fininshed in our machine shop. Special liners made of "nitroloy" were designed, manufactured and heat-treated to a Rockwell-C scale of 60.

3. Machine Shop/Field Machining

Skin cutting and honing to within .003" of taper and roundness the blind bore of an offshore pile driver ram. I.D.: 47" Length: 86" Weight: 46 Tons Material Removed: .220 of steel forging Finish Required: Smooth, no tool marks with honed steel finish.

4. Engineering/Mechanical

Turnkey sole source project involving the turbo charging and intercooling of a 399 Caterpillar, and restaging of a 3-stage 4-throw compressor to suit changing service requirements. T.C.S. handled all engineering, gas flow conditions, loading options, plus all mechanical support. Coded welders were subcontracted by T.C.S. to meet with customers' approval in an effort to consolidate responsibility for the entire project.

5. Engineering/Machine Shop/Mechanical

Supply all necessary labor to redesign liners and pistons, verify and reclaim all alignment faces and fits, and bring rod load conditions to a safe level without reducing gas flow on three C/P 665FE-4 single stage units. Also involved with this project was extensive study of cylinder valve porting, and valve performance along with the use of our engine analyzer to determine varying internal cylinder pressures and column effects related to cylinder design.

One of the above units suffered major crankshaft and main bearing damage. The unit was machined and line bored to accept standard bearings and "blueprinted" to assure perpendicularity of the crosshead and distance piece mounting faces. This involved designing and using a precision crank-mounted fixture to indicate and eventually remachine the side faces of the frame.

Other modifications included re-routing the oil pump, securing the thrust rings, redesigning a two-piece cast iron piston and modifying the variable pocket unloaders.

6. Mechanical

Evaluation, disassembly, part repair, re-assembly and start-up of a variety of compressors and engines including but not limited to:

*I/R KVS-2000
I/R KVG-12
I/R RDS-6
*I/R RDS-4
White Superior 8GT825 with
White Superior 66825
CFC Clark
*CFA, CFB Clark
*HMA-8 Clark
HBA-6T Clark
TLA-6 Clark
GMVA-12
C/B GMVH-12
C/B GMXD-6
C/B GMXH-10
I/R SVG-10, 12
*L7042 GSIV Waukesha
L3711 Waukesha
5790 Waukesha
*P9290 Waukesha
WBFHLD Joy

*WBFXHLD Joy
V-250 Clark
I/R - PSVG - 6
*I/R - XVG - 8
Worthington Cub
*Worthington Super Cub
I/R HHE-4
G.M. 671
G.M. 12V71
G.M. 8V71
CAT 3306
CAT G399
*C/B AMA-4
C/B AM-2
C/B AM-4
ARIEL
C/P 5FE-4
*C/P 5FE-2
C/P 6FE
C/P 665FE-2
*C/P 665FE-4

*Units involving specialized repairs, new designs or design changes necessary to promote longer port life or to enhance performance. Information available upon request.

CUSTOMER REFERENCES

AMINOIL U.S.A., Inc.	Dan Hall - Houston, TX Fred Weikert - Houston, TX Jimmy Ward - Lafayette, LA Tom Dade - Lafayette, LA
AMOCO OIL CO.	Leroi Pesson - Lafayette, LA
CHEVRON U.S.A., INC.	L.C. Orchard - New Orleans, LA James Stewart - Harahan, LA Johnny Bergmann - Venice, LA
CELERON	George Alpha - Lafayette, LA
CONOCO	Bob Gruntz - Houston, TX Dick Ball - Houston, TX Fred Gipson - New Orleans, LA Jory Thompson - New Orleans, LA
EL PASO HYDROCARBONS	Burnace Boles - Odessa, TX Vaughn Turner - Rankin, TX
EXXON U.S.A., INC.	Wayne Clark - Harahan, LA Richard Metcaff - New Orleans, LA Howard Smith - Lafayette, LA Steve Brooks - Lafayette, LA
MARATHON OIL COMPANY	Dan Dalene - Lafayette, LA Dave Loran - Lafayette, LA
MC MO RAN OFFSHORE PROD. CO.	Rob Mingo - New Orleans, LA John Hickmann - New Orleans, LA
MOBIL OIL CO.	Lowell Eckhoff - New Orleans, LA
ODECO OIL & GAS	Les Vincent - New Orleans, LA Mike Nunez - New Orleans, LA
PENNZOIL	Bud Goodmann - Lafayette, LA Karl Pesson - Intracoastal City, LA
SHELL OFFSHORE INC.	L. E. Barton - New Orleans, LA Doug Pillsbury - New Orleans, LA

SUN EXPLORATION & PRODUCTION	Gene Munson - Corpus Christi, TX Don Hollingsworth - Lafayette, LA Howard Hadley, Lafayette, LA
SUPERIOR OIL COMPANY	Tony Brown - Lafayette, LA John Byler - Lowry, LA Ed Cormier - Lowry, LA
TENNECO	Ken Roy - Lafayette, LA James McKay - Lafayette, LA Richard Y'Barbo - Lafayette, LA
TEXACO, INC.	Robert Ingraham - Morgan City, LA Richard Gaston - Morgan City, LA

Mr. **Hayes**. Thank you very much, Mr. Moore.

Mr. Randolph.

TESTIMONY OF ALLISON B. RANDOLPH, JR., PRESIDENT, RAN-DER INDUSTRIES, INC.

Mr. **Randolph**. I am A.B. Randolph, president of Ran-Der Industries, Inc.

We are suppliers of drilling mud and the industry expertise to use it.

Ran-Der was incorporated in 1974 and financed by the capital of its stockholders. Soon we discovered that we could not continue to capitalize ourselves from within, and we applied to the SBA for a $500,000 loan, which some 5 or 6 months later was indeed granted.

The essence of the advantage of Government participating with private industry may be indicated by the table of figures that I provide here. Since 1974 our gross sales have been $57 million-plus. Out total number of employees was some 368.

Corporate payroll contributions to those employees were $507,000. Withholding taxes were $1,529,000. Gross payroll circulated in the area over that period exceeded $7 million. Corporate income tax exceeded $700,000 over the period.

Gentlemen, I think the obvious conclusion to be drawn from this information is that the SBA is not only a needed entity for small businesses who have expertise in their field of endeavor, the determination for success and who are completely financially invested, and in addition to these provisions, it is good business for the Government to invest its money in these entrepreneurial efforts.

[Mr. Randolph's prepared statement follows:]

Prepared Statement of Allison B. Randolph, Jr., President, Ran-Der Industries, Inc.

Ran-Der Industries was incorporated in August, 1974 and financed by the personal capital of its stockholders, A.B. Randolph, Jr., 51%, and E.F. Snyder, Jr., 49%, from 1972 through 1978.

The Company has far exceeded its ability to continue to capitalize itself.

Ran-Der then began using its vendors to finance its operations. This can be a dead-ended fatal mode of operating. We realize a new source of long-term capital had to be obtained. Ran-Der was in a cash poor position, there was business available and service to render, but we were without the necessary capital to increase inventories, equipment and services. We had grown faster than our capital base could support.

Requests to borrow needed funds from area banks were refused on the basis that collateral was insufficient to cover the loan requested, even though Ran-Der could demonstrate the ability to repay the loan necessary for continued operations and growth.

The Company needed to become financially current with its material suppliers who had become uncooperative and unwilling financiers. The inventories supplied by these vendors had a wholesale value accounting for roughly 70% of our overdue payables. However, our current receivables were sufficient to cover this debt, but then there would be insufficient funds for operation, more inventory and capital additions needed for continued growth.

These problems could not be solved without an injection of new long-term capital. The Small Business Administration seemed to be our only hope. We applied to the SBA for a loan of $500,000. The processing of our application took about 5 months, but eventually in May, 1979 the loan was completed. The loan was made on a seven year pay-back plan. Ran-Der has never missed or been late on a scheduled note.

This additional capital allowed us to accomplish the following financial history:

	Gross sales	Number employees	Corporate payroll contrib.	Employee W/H taxes	Gross payroll	Corporate income tax
1978	2,956,295	34	36,789	86,232	424,879	(14,223)
1979	3,651,941	46	36,901	120,806	539,291	6,160
1980	6,699,909	60	53,241	208,362	810,551	156,311
1981	11,226,262	67	88,459	359,779	1,213,938	351,932
1982	13,501,140	48	90,904	295,718	1,461,785	374,118
1983	10,451,105	50	105,144	222,577	1,141,504	(73,513)
1984	9,010,194	63	95,588	235,531	1,258,748	(16,917)
Total	57,536,847	368	507,026	1,529,007	7,064,652	783,868

Gentlemen, I think the obvious conclusion to be drawn from this information is that the SBA is not only a needed entity for small businesses who have expertise in their field of endeavor, the determination for success and who are completely financially invested, and in addition to these provisions, it is good business for the Government to invest its money in these enterpreneural efforts.

TESTIMONY OF JEANNE RATEAU PAYSSE, OWNER, PAYSSE'S APOTHECARY, INC.

Ms. Paysse. My name is Jeanne Rateau Paysse, a licensed pharmacist and owner of Paysse's Apothecary, Inc., located at 1700 Tulane Avenue, New Orleans, LA. I have been in business 10 years now and have repaid my SBA loan of $54,000 plus.

Since graduating from pharmacy school in 1952 and working many years as a community and hospital pharmacist, I dreamed of owning my own professional pharmacy with a drive-up window. After my three children were old enough and did not require my attention at home, I pursued my dream. This dream of having my own professional pharmacy would not have been possible without the great assistance and continual guidance from the Small Business Administration.

Attempts from local banks met with failure in obtaining a loan. Being a woman, mother and never having been in a business presented a zero credit rating. I was told from National American Bank it would be better if I had been in business and went bankrupt. I felt like I was in a Catch 22.

I had heard about the SBA and its loans and pursued this course. Several inches of forms were given to me and I realized, while working and keeping house, a long period would ensue before finalizing all the papers. I inquired as to anyone that could help me get this necessary paperwork done correctly and NEDA, the National Economic Development Association, was suggested if I could get them to help me as I was told was for minority Spanish-speaking people. I was a minority but did not speak Spanish. The people at NEDA spoke both languages fluently and a Mr. Raoul Nunez guided me through all necessary information needed toward applying for the loan and actually brought me to the banks. The first bank, Hibernia National Bank, refused my application. What grounds? Female and no store conceived as to my idea and without business experience. The second bank, Whitney Bank, and one of its officers, Mr. Monsted, accepted my application. Now I was on my own. My loan was cut from the original request which included working capital. But I did secure my lease based upon acceptance of my SBA loan on property that was vacant for 8 years approximately. I began remodeling existing structure that was once a service station and a rear building, once a restaurant that was in a state of dilapidation. This was removed for parking. My opening order in stock had to be paid for c.o.d. Later, I found out that men opening a drug store get 6 to 8 months to pay for an opening order. However, many of these people have since gone out of business and I'm still here.

Paysse's was formally opened July 4, 1975. During this time I built a small building in the rear of the drugstore and opened an optical center. I felt like pharmacists should be capable of filling all prescriptions and pharmacists were trained as opticians. I sold the business 2 years ago.

My previous experience taught me that sickness and accidents occur any time of day, not just during daylight hours. So Paysse's opened 24 hours a day and for a year maintained those hours. It is the first prescription drive up in the city of New Orleans and before the fast service food chains. I found out neither a copyright nor patent could be obtained on a mode of business. We also have parking and a small waiting room for walk-in customers. Since Paysse's opened, we have always kept patient profiles, after-hour recorder, free blood pressure, free parking, advice to the patient, proper storage of drugs, how to use drugs, advice as to what over-the-counter medicine you should not take with your prescription drug and refill record in compliance with the doctor's orders. In other words, Paysse's has always practiced clinical pharmacy. Paysse's has maintained a close affiliation with the State hospital in the next block and carries an indigent charge for the social service department. I have given continuing education programs for the residents, and interns, and social workers, and have an open invitation to speak again to the pediatric residents. To conduct proper business, which charge accounts were not on my original plan, it was necessary to open a few: Kidney Dialysis Center, New Orleans; New Orleans East; Marrera, Houma, and Hammond, LA; private doctors' offices; religious orders; attorneys and third-party payments. Private accounts it was deemed by my CPA were only profitable if maintained over $25 a month.

My two biggest accomplishments, so far I deem, has been to secure a 3-year contract with Martin Marietta Corp. here in New Orleans. I was occasionally doing business with them 2 years prior and have 2 years remaining on the contract. I do deliver to them and large accounts, but do not offer a per se delivery system. I have been given a private tour of the Michoud Facility and it has been worth the time and effort put into this contract. Courteous and efficient service has been Paysse's motto.

My second accomplishment that makes me feel like I have reached the epitome of my profession, not necessarily moneywise, are the numerous medical doctors that periodically call me to get the latest in treatment and choice of drugs for a particular diagnosis that they should prescribe for their patients.

My worst account has been the State welfare in nonpayment of moneys. Try to collect. I contacted Mr. Pompian, who was with the SBA in Washington, DC, 4 years ago to get his help as a large percentage of my business was then tied up with fiscal agency handling the Louisiana Program. Mr. Pompian's telephone calls greatly expedited moneys owed me. A great article appeared in a pharmacy magazine, Does third-party payments hurt or help, Let me count the ways, and I never forgot the author's name. However, another time I found out Mr. Pompian is with another branch of Government, and it is a sad loss to SBA and me. With $15,000 nonpayment debt, I stopped welfare for 2 years till the account became near paid, but still suffered a loss. The State welfare prescriptions have been resumed but with a computer service in Kansas, Script 19, that sends in a mag tape. Now there is only a 3-week lag and more consistent weekly payments. Let's face it, third-party payment is here to stay.

I attended the Small Business Administration's management seminars held at UNO, and it greatly helped. While there I met Dr. Ken Lacho of UNO Business School, who handled the Small Business Institute's Program. As part of SBA management the graduate students have researched, written and help implement better business ideas and am greatly appreciative of this service. Some of these students, for example, one received his doctorate in computers and writes programs for businesses with Olivetti. Many have frequently returned to see how I am doing and it's always great to see how they personally have progressed.

Paysse's is unique. I wanted this spot as for the same reasons the Superdome is where it is, all arteries lead to it. However, I'm one better: Tulane and South Claiborne is one of the busiest intersections of the city of New Orleans and one of the most dangerous. In 1975 over 150,000 cars passed this corner. I certainly had to get someone to stop and they did. Besides, there is a bus stop on the corner. Competition did not worry me as there was one store two blocks away: Hospital Drug Store and two blocks straight down on Canal and Claiborne, Walgreen's. Walgreen's closed for 2 years but has since opened on Canal Street, four blocks away from me. Eckerd's, a large chainstore, has opened three blocks down Tulane Avenue from me. I believe this is great as people walking toward them will see Paysse's, if they haven't before, and stop here. Eckerd's has already been robbed and has closed their optical center in less than a year.

As I said, Paysse's is unique with the only drugstore in the city having certified security, better than a bank. I have never been robbed. I have established a reputation here. A few years ago, one of the other pharmacists and myself received the key to the city from the New Orleans Police Department for over 78 arrests in one year. My street reputation is out and have succeeded in keeping this type clientele away.

I am a preceptor for the pharmacy school located in New Orleans, Xavier College of Pharmacy. I am proud that out of many stores in the city, Paysse's is one of the few qualifying and meeting certain standards that students can learn here.

In 1982 I received my doctor of pharmacy from Loyola University of the South and proudly display my certificate in my waiting room.

Personally, I become greatly disheartened when I think about activities to disband and close the SBA. The tremendous assistance I received, without which I would never have opened my dream pharmacy. I would never have attended the management seminars, met with future businessmen and women from UNO, aided the indigent, worked with and for the handicapped and abused children at the Volunteers of America, served on their board, served on the Southeast Epilepsy Association board that serves 11 parishes, met and counseled many customers, provided medical emergency services to the many medical offices, guided some drug abusers toward a better life, loaned money to those down and out and have always been repaid twofold, not to mention the taxes collected by the city of New Orleans and the State of Louisiana, both of which need the revenues.

During my years in business, I have employed over 70 people at different times with various ethnic backgrounds, Chinese, Spanish, Indians from India, Korean, Nigerians, Egyptians, black Americans, and white Americans. Two handicapped, one paralyzed from polio from age 10½, were also employed at Paysse's.

I like to think of the years past as I not only did well, but I also did good.

Mr. HAYES. Thank you very much.

Ms. PAYSSE. Thank you for being able to come.

Mr. HAYES. All three of you has presented us with testimony that pretty much expresses your support and appreciation for the help you have gotten from the SBA.

I take it that each one of you has, as you have suggested, Ms. Paysse, repaid your loan. You have not defaulted on any payments at all. Mr. Moore, how many people do you employ?

Mr. MOORE. Currently we are employing 95.

Mr. HAYES. Mr. Randolph.

Mr. RANDOLPH. About 60 now.

Mr. HAYES. Could you survive if fate would have it that the SBA would go out of business?

Mr. RANDOLPH. Had the SBA not been available when we called on it, we could not have survived.

Mr. HAYES. You could now?

Mr. RANDOLPH. I don't understand.

Mr. HAYES. Do you envision that you might need the help of SBA again?

Mr. RANDOLPH. No.

Mr. HAYES. You want to see the program continued?

Mr. RANDOLPH. Oh, absolutely.

Mr. HAYES. Mr. Mitchell.

Mr. MITCHELL. Again, excellent testimony.

One or two observations. First, all that we hear is continued emphasis on public-private sector cooperation, that comes from the administration. Here we have a clear-cut example of public-private sector cooperation, the Government cooperating with the banks in terms of providing loans. Now, that same group that calls for public-private cooperation wants to diminish it significantly. It doesn't make sense.

The one thing that impressed me the most about your testimony, and yours, was the fact that in terms of taxes going back to the Government, you have exceeded what your original loan was. I take it in your situation, Mr. Randolph, you made your loan in 1979, for $500,000?

Mr. RANDOLPH. Right.

Mr. MITCHELL. That loan has been fully repaid?

Mr. RANDOLPH. No; it still has a year, 7-year payback.

Mr. MITCHELL. All right, but since 1979, according to your data, 1979 through 1984, on corporate income tax, you have paid a total of $783,868, more than the original loan. Now, that just makes sense.

The Government will get its $500,000 back and enhanced revenues of above and beyond the cost of the original loan. The same thing applied in your case, Mr. Moore.

Mr. MOORE. Yes; I feel that the original statistics that you gentlemen stated, I remember the number of 20,000 people, the Congressman said, well, it only helps 20,000. Well, the normal case, 20,000 times a minimum of 50. And at that point if you start talking about a Federal tax base of 20,000 times a point of 50 or a 100, et cetera, you are getting your money back tenfold.

It is an area where there is a void in the banking community today below $150,000.

Mr. MITCHELL. You are dead on target. If we could expand this kind of effort, we wouldn't need to talk about tax enhancement.

They call it tax enhancement, but it is a tax increase. If we would expand this kind of effort over the years, we would have a sufficient sum of revenue coming into the Federal Government to begin to sharply attack the deficit. That deficit is not going to disappear tomorrow morning. It is going to take a steady, prolonged approach.

Mr. Chairman, I have no further questions. Thank you.

Mr. HAYES. Let me dismiss this panel. Thank you for your presence and taking the time to come and testify. I will say to you, as I said to those who preceeded you here, the first panel, your testimony is valuable and helpful to us as we try to sustain the SBA.

This free enterprise system of ours needs this agency. It is a nonpartisan request, to assist people to earn a living in our society. We need to get votes from both sides of the aisle.

I wish you continued success.

Before we break for a recess, we have just been joined by our esteemed colleague, one who I admire very much, a person who has certainly displayed a keen interest and concern for her constituency here in this great State of Louisiana, and here in the city of New Orleans. We are glad she is able to join us and work this hearing into her busy schedule. I know how it is when you have to come home, even during a break. You have to take care of the people who you represent. It requires a lot of time, but Congresswoman Boggs, I just thought we ought to at least acknowledge your presence and have you say a few words here at this time.

Following her remarks, we will have a 10-minute break to stretch our legs for a few minutes.

OPENING STATEMENT OF HON. LINDY (MRS. HALE) BOGGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mrs. BOGGS. Thank you very much, Mr. Chairman. Thank you, too, Mr. Mitchell. It is a privilege to be here. I regret that I was unable to be here at the very beginning to welcome you to New Orleans and thank you for selecting our city as one of the major areas around the country in which you are holding hearings. It means a great deal to us here in our area.

Mr. Chairman, I do have a statement that I would like to submit for the record.

I am sure that you will be told all of the things here that I am being told at meetings, in letters, and on the telephone by our small business constituents.

I hope that you know that in addition to the various programs which you and this committee have been discussing this morning, other Small Business Administration programs have been important to us, such as small business loans, of course, and the 8(a) procurements that are so important to our minority and female businesspersons. In addition, we are very disaster prone to natural disaster in our State. The Disaster Loan Program has really been the lifeblood of many small businesses that would not have been able to pick up again, to repay, and to go forward with their innovative methods of doing business, with the hiring of all the people that are employed under small business enterprises.

It is with particular pleasure that I welcome you here to our State, so you will be able to understand this problem firsthand.

I would also like to use this occasion to announce to the people here at home that Mr. Mitchell is the chief sponsor and allowed me to go on as the original cosponsor with him of a new bill, H.R. 1575. It is to make certain that we shore up what may be considered an oversight on equal credit legislation. That is to make certain that equal commercial credit is guaranteed to all persons regardless of race, color, national origin, age, sex, and marital status.

I would hope that the women of this area would be especially grateful to Chairman Mitchell.

I would also like to add one other little thing. Mr. Hayes was here on our last congressional break at another important meeting for our area, so we thank you doubly, Chairman Hayes, for being here with us again. I look forward to the testimony. I will stay just as long as I can.

I have some other suggestions within my written testimony, but I know that what is contained therein will be contained in the testimony of our other witnesses who will come before the committee. I won't delay your 10-minute break any longer.

Thank you very much.

[Mrs. Boggs' prepared statement follows:]

PREPARED STATEMENT OF HON. LINDY (MRS. HALE) BOGGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. Chairman, I appreciate the fact that the committee has come to New Orleans to hear testimony in response to the administration's proposal to close down the Small Business Administration.

I have been disturbed by the idea of closing the SBA and I have received numerous communications from my constituents in New Orleans expressing dismay over the proposal. I have received only two letters indicating support for the closing in the spirit of the urgency of Federal spending cutbacks. Most of the letters and telephone calls have discussed the importance of the various forms of assistance available through the S.B.A. to shoring up and encouraging our Nation's small business sector.

While I know we all appreciate the importance of reducing our immense Federal deficit and understand the need to cutback even further than we have aleady on Federal spending, serious questions do arise as to which are the most appropriate places to cut back. The small Business sector of our economy has widely been recognized as the source of the lion's share of economic growth, innovation and job creation. Since current administration policies have been designed to stimulate economic activity and growth, it would seem evident that we should take particular care to encourage and support our small business sector. It is, after all, that portion of our economy which best exemplifies our proud American heritage of entrepreneurship.

The SBA has, through its various programs, been able to assist our Nation's entrepreneurs in a manner which helps to overcome hurdles. It has also been able to make available assistance for minority and women entrepreneurs who often enter the marketplace with certain disadvantages.

The Small Business Development Center Program has been important in being able to provide small business men and women with counseling, management training, and other professional consultant services which would not otherwise be available to them at a reasonable cost. To quote from letters from constituents who have utilized the services of the Small Business Development Center at the University of New Orleans: "In the current economic and business environment, the small business owner is faced with very complex decisions and high levels of financial and market uncertainty. The services provided by the SBDC program help small businesses deal with these complexities and uncertainties more confidently."

The Disaster Loan program has really been responsible for keeping many small businesses in Louisiana on their feet. As you may realize, Mr. Chairman, Louisiana is a particularly disaster-prone State. We are largely below sea level, at the base of the Mississippi River and on the Gulf of Mexico. Louisiana has no comprehensive disaster relief program which would provide citizens with monetary relief following a disaster. Despite the fact that we have very heavy participation in the National Flood Insurance Program, we also have very heavy participation in the SBA disaster loan program—which picks up where flood insurance leaves off and which covers uninsured damage other than flooding. It is very reasonable to say that without SBA disaster loans, a significant number of commercial enterprises would not easily be able to recover from the many disasters of varying degrees which strike our state.

The 8(a) program, despite some problems it has had in the past, has made an important contribution to enhancing access of minority owned businesses to procurement opportunities and other assistance. SBA generated outreach to women owned businesses has been helpful to that rapidly growing portion of the small business community.

With regard to minority and women owned businesses, I would like to thank Chairman Mitchell for his recent introduction of legislation designed to clarify the application of the Equal Credit Opportunity Act to commercial credit matters. This bill, H.R. 1575, should make a significant difference to minority and women entrepreneurs and would-be entrepreneurs—and I was delighted to work with Mr. Mitchell in developing the bill and to be the first cosponsor. I look forward to working with you on this important initiative during this Congressional Session, Mr. Chairman. I thank you for your leadership in protecting the important interests of our Nation's small businesses and I appreciate the opportunity to be here with you today to hear the testimony of New Orleanians and other Louisians.

Mr. HAYES. Thank you, Congresswoman Boggs. We invite you to stay here as long as you can. Your statement in its entirety is in the record.

I was here a few weeks ago with the joint committees, the Judiciary Committee, and the Education and Labor Committee on H.R. 700, having to do with the Civil Rights Restoration Act. We thank you for your support. I just like New Orleans. You have too many good places to eat, and my size suggests to me that at my age I have to back away from food. It is a most difficult thing to do.

We will resume promptly at 5 minutes to 11.

[Recess.]

Mr. HAYES. The committee will be in order.

Panel No. 3, will come forward as your names are called.

Mr. Burnell Moliere, from A.M.E., Inc.; Mr. Alois Binder, Alois J. Binder Bakery, New Orleans; and Ms. Donnis Ringstaff, please come forward.

TESTIMONY OF BURNELL MOLIERE, A.M.E., INC.

Mr. MOLIERE. Good morning. I am Burnell Moliere.

Before I read my prepared statement, I have a few comments.

Mr. HAYES. We have a copy of your prepared testimony. You may just deal with the highlights, but you may rest assured that the contents of your entire testimony will be entered and made a part of the record of this hearing.

Mr. MOLIERE. When we started our business 7 years ago, we started out with a $450-a-month job doing some janitorial work for a company, Oil Storage Co. Since that time, our business has ballooned to nearly $3 million in sales. We started with 1 employee and presently we have got nearly 300 employees. We developed our labor pool from the Department of Labor, State unemployment facilities here in Louisiana, and the surrounding area.

Our company is responsible for the payment of nearly $300,000 in Federal taxes. We hire the unemployed or the unemployable. Our wages are low because of our industry standards. The people that wind up working for our company are people that cannot find employment elsewhere.

I am here to testify on behalf of the Small Business Administration. The Small Business Administration is my friend.

I had ambitions to start a small business 7 years ago. The SBA was helpful in providing detailed yet easy to understand information on a multitude of business topics. Hard work, dependability and a good product made me successful, but the SBA helped me gain the initial knowledge and confidence to start my business.

As any new business, we learned by experience. While managing our business, it was difficult for us to improve our business understanding, take the time or incur the expenses by attending seminars or night classes at a local college. The SBA provided the funding for a professional consultant to analyze our internal operations and recommend valuable advice on managing our increasing paperwork burden. They also introduced cost control procedures that further helped us become more proficient.

The SBA provided funding to pay for our first yearend accounting review. The review provided us with new insights to the accounting process plus gave our recordkeeping credibility when viewed by outside parties. The cost of this review would have been a real burden for us if not for the SBA. The benefit of this review will carry forward for many years.

The greatest benefits we have received from the SBA are our working capital loan and construction bonding. Our business is labor intensive. We would not have achieved the growth in business if the SBA had not had its lending and bonding programs available for us. We had developed skills capable of managing new business growth but banks and bonding agencies refused to work with us because of various reasons relating to lack of experience. The SBA loaned us money and provided us bonding which gave us opportunity to compete for new business.

Competition, entrepreneurialism and free enterprise are the foundations of our economy. The Small Business Administration has helped our economy by providing new and inexperienced businesses guidance.

The SBA helped us. It was not solely responsible for our success; but the guidance, the financial backing, and the bonding all played an invaluable role in helping us achieve our growth this quickly. If the SBA is eliminated, it will be a major loss to current and future small businesses. Our economy depends on the success of small business.

Thank you.

Mr. HAYES. Thank you.

We may have some questions for you once we complete the testimony of the others on this panel.

TESTIMONY OF ALOIS J. BINDER, JR., ALOIS J. BINDER BAKERY

Mr. BINDER. My name is Alois J. Binder, Jr. I have known Congresswoman Boggs for several years.

Our family has been in the baking business, baking french bread in the city of New Orleans since 1850.

Our business has only been in existence for 13½ years, that is the business we run now. We had a family dispute back in 1971. My father and my brothers and the rest of his family decided we would start our own business. So, we bought an existing bakery that was under liquidation through bankruptcy at a nominal price. We had to reconstruct the entire building, and remanufacture the equipment necessary to bake bread because our funds were very limited. So, we started in the business.

We were not able to acquire an SBA loan at the time, nor a loan from any of the banks. So, we used what funds we had. After 2 years of operation we had lost $98,000 getting started. At that time the parent company we came from closed up because of lack of expertise in running it, too much exposure on loans, and it got to a point where they couldn't run any more. We were in financially worse shape than they were.

At that time we approached the Whitney Bank for a loan. They said no, you don't have enough assets, or enough income, in order to pay the loan. So we went to Hibernia and several of the other banks. We found a small bank that had just started a year or so before, called the Century Bank.

Knowing several of the people on the board and putting a sales talk on and a demonstration of what we could do, we sold ourselves. We were financially in dire need and the bank says no, we can't loan you the money, but we will assist you to go through the SBA. Well, it is history. A bank today and in the last 10 years will not loan you any money, particularly if you need it. If you don't need it, if your financial statements show that you have got the income, they will be glad to loan you the money.

There is no nerve in banking today. There is no desire to say this is a good man, he knows his business, and he is going to make a go of it. It is strictly figures on paper.

SBA came into the picture, and the lady that assisted us back at that time, Una M. Bourgeois, was the finest businessperson I have ever met. The SBA should be complimented in recruiting her to work for them. She helped me in all areas.

I have been in the business since I was 7 years old, and I am 55 now. I have been through it all, but she showed me things that I hadn't seen in all those years, to assist us. SBA gave us the first loan in 1973. It was some $90,000. I think the percentage rate was 7.5, 1½ points below the particular going rate at the time. We worked at it.

It was used for working capital, paying off leases and loans that we had accumulated and also to buy new equipment and buy some used equipment. So, I was able to spread out the payments over a 5-year period in order to get the condition of my working capital to where we could sustain it. In 1977, we decided that we wanted to expand some more, so we went back to the SBA. At that time they agreed to loan us $160,000 at 9.5-percent interest, which was again lower than the going rate.

This loan has a year and a couple of months to run. It has helped us to a point where if it was not for the SBA, we would have been bankrupt in 1973, because we had no means to go out and borrow any more money. We were at the limit of our exposure as far as what we could guarantee.

There are bad things about the SBA. In the first place, they are so slow. When you need money, you need it now, not 6, 8, 9 months down the road, because you could closeup in that time.

Second, the amount of paperwork involved to fill out their tremendous forms that is ambiguous in portions, it takes a tremendous amount of time. It took me 2 weeks to research and fill out the forms. So you can imagine, you are losing money and you are nervous because you are liable to go bankrupt at any moment, and you are sitting down there to try to get the information to fill out a form. But all in all, you take the bad points and you add the good points to it. I think the SBA is a fine organization.

I think it is a fine idea. It has helped my business tremendously.

You want some figures. We are doing about $2 million worth of business a year. We were doing $2½ million some 3 years ago. We now employ 52 people. We were employing 72 at our peak. My payroll for the first quarter of 1985 was $218,465. Of that payroll, I paid in withholding tax and in FICA tax some $61,635 for that first quarter. In addition, I paid under Federal unemployment tax $1,707, and in State unemployment tax $3,521.

My State unemployment percentage is 1.65, which is good. It took a lot of work to get it there, contesting every claim, making sure that the people that did get the unemployment would do it, and it was no fault of theirs, the fault was ours because we had to reduce our labor.

The SBA on the first loan was a 20–80 percent loan, 80-percent guaranteed by the SBA, 20 percent by the bank. The second loan is 65–35.

When I investigated another loan, they told me it is going to be 45, SBA–55 bank, so theoretically I shouldn't be here today because I have outgrown the SBA Loan Program in the loan portion because the more loans I get, the more exposure to the bank. And now the bank says no, we are not going to loan you any money.

There are other programs in the SBA. A gentleman told me about the 503 plan. There's some situation. Let me add this observation. The President has done a fine job, and I am behind him 100 percent in business and it has hurt. It has hurt us in taxes, taxes as far as the State is concerned, and the city, because those programs that the city and the State lived on before have been reduced or canceled. Now they have to look elsewhere for income and they have got it through taxes.

This last program the Governor put through in March 1984, will cost my business $20,000 a year in taxes on insurance and things of that type.

The overhead in business today has increased to a point where it makes it extremely difficult for a manager to run his business without watching and getting involved in Government at the Federal, the State or the city level in order to slow down some of these increases. You say sales tax, in the city of New Orleans it is at 9 percent. I hear talk of another percent. That is ridiculous. The people can't stand it.

I cannot pass on these increases in taxes because the working public has not gotten an increase in 2½ years. How can I raise the price of my bread and my doughnuts to the public when the public is not getting additional funds?

I have got to tighten up and use my expertise in order to keep afloat. It has been tough. I have not shown a profit in 3 years. I have lost money every year. Why? Two things in the french bread industry have affected the people of New Orleans. One of them happened 3 years ago. It was a system of what we call in-store bakeries. An in-store bakery, two types, scratch bakeries, and bake-off systems.

Hot bread is my bible. I sell hot bread. I got a flashlight outside my shop. I serviced the grocery stores two, three trips a day of hot french bread. The bake-off systems came in, and they buy frozen dough, 2 or 3 months old. And they bake this bread in their grocery store. The aroma is tremendous. The taste of the bread when it is hot is good. After it sits a hour, you can't eat it. It has no flavor and eats like a piece of gum. It is not quality, but the grocery store manager owns the equipment and the operation. And I am coming in with hot bread in direct competition, so what does he say? Mr. Binder, I don't need you any more. I got too many bakers.

I dropped, 2½ years ago, $180,000 a year business in the supermarkets. I've converted my business over to restaurants. I went into variety type breads that these bakery shops can't bake.

The bake-off systems and the in store bakeries got bigger and bigger so the larger wholesale frenchbread bakers that were more into the grocery business are now looking for avenues of business for themselves so they went into the restaurants, hotels, snack bars which reduced my business.

It reduced it to a point of some 12 percent. We had this little animal in here last year, they called the World's Fair. The year before the World's Fair, business was down 8 to 10 percent in the hotels, restaurants, tourists. The year after, it is worse.

In the last 3 months, my business is down from its peak some 22 percent, so henceforth I had to lay off some 20 people. I had to tighten up wherever possible and look for losses, and for anything that would affect my business as far as staying in business, not making a profit, because there is none.

I can't raise my prices because it is not feasible. The people cannot pay it. You raise your prices, you raise yourself out of business. These are hard times.

Now, SBA is a place that a small businessman that hits hard times can go into and look at a possibility of another loan in order to get through this. But buying more equipment in order to facilitate the speed that you can produce the bread in order to keep your costs down, that has a bad side too, because it reduces labor but you can see how much money I generate with the sale of $500,000 and $218,000 as labor, that is some 43, 44 percent labor-oriented type business and you can see the amount of taxes that it generates for the Federal Government, for the State and for the city.

Thank you. I appreciate the opportunity.

Mr. HAYES. Thank you very much.

It would help us if at a later date you could submit written testimony for the record.

Mr. BINDER. The reason I didn't give you one was because I was invited here yesterday evening, and in running a business you can't just stop what you are doing to prepare a statement and to do this right would take about a week.

Mr. MITCHELL. Try to do it and in lieu of that, if you can't possibly do it, some fresh baked loaves of french bread would be appreciated.

Mr. HAYES. Ms. Ringstaff.

TESTIMONY OF DONNIS L. RINGSTAFF, DONNIS BOUTIQUE, INC., NEW ORLEANS, LA

Ms. RINGSTAFF. Good morning, Congresswoman Boggs, Chairman Mitchell, and Congressman Hayes. I would like to thank you for inviting me here this morning to speak on behalf of the Small Business Administration. I would like to recap a few of my background experiences and education as opposed to where I am today.

Donnis L. Ringstaff graduated from Dillard University with a B.A. degree in biology education and began part-time work at a local department store as a hair stylist until placement at one of the schools in Orleans Parish in the opening of the school year. This placement would be in biology education. However, upon reassignment I was asked by the company I was employed with to remain on as a manager trainee in retailing. I accepted.

The training program was completed and I became a buyer for Maison Blanche in junior sportswear. I remained with Maison Blanche for 1 year and resigned. I entered the Orleans Parish school system and worked as a teacher of biology for 1 year. During my employment with the school system, I decided I would rather return to the retail work force sector and become the owner of a ladies specialty store.

With my training and exposure to the retail world, I felt I had the ability to contribute to my locale through the retailing experience. At that point I began to seek information upon opening a small business.

Through my findings, I located an agency known as the Small Business Administration. Through this agency I was informed by many including bankers that I should take my idea of entrepreneurship to the SBA office.

I knew I would need some moneys for my ladies specialty store, but all I had was a savings of $5,000 and was seeking a $50,000 loan from the SBA office.

After many tedious questions and preparations of information and an on-the-spot testing of a SCORE member, 3 weeks later I was informed that I would become the recipient of an EOL loan, meaning an Equal Opportunity Loan of $25,000.

So on December 2, 1972, Donnis Boutique with the help of SBA came into existence in New Orleans' French Quarter. As a minority and a woman I set out to show the community, SBA, and myself that the free enterprise concept in our country could and would work.

Over the years, Donnis Boutique has had local, national and international acclaims as a ladies specialty store to shop while visiting the city of New Orleans.

Without my SBA loan, this dream could not have come to pass without the Small Business Administration Office.

I plead the cause of the SBA Program for others who will follow me in this free capitalistic society; that they be given an opportunity to get the support of our Government and agencies like SBA to continue to help those like myself reach our dreams and put them into a practice of reality.

If SBA is abolished, how many small businesses which make up our country will have the opportunity to exist?

I feel this agency should exist for individuals like me, and others, to contribute to our economic society and not leave the economics only to those who traditionally can afford it.

There will always be those who are lessor but should our moral society deny them the opportunity to participate in our economic society. Without the help of the Small Business Administration, Donnis Boutique would not be in existence today and if we would be in existence today, it would probably begin now only when I would have had enough time to save moneys and that would have taken a very long time because at a very slow pace and not making a very good salary, which was menial at the time, before I opened my store, I was making $5,000 a year. It would take a long time to raise $25,000 or $50,000.

I am also a recipient of a disaster loan. I have been paid both of my loans out. I have served my community in many areas.

I have been consultant to many. I participate in workshops and I feel very happy that I have the ability and the opportuity to help those who would like to go into business. We all do not have funds readily available, and we do not have bankers who are readily available to listen to us, and I do plead the cause of SBA and would to the best of my ability do whatever is necessary in hoping that this office will not be abolished.

Thank you.

Mr. HAYES. Thank you.

Do you have any other employees?

Ms. RINGSTAFF. Yes. I have three employees.

Mr. HAYES. You don't have any existing loans?

Ms. RINGSTAFF. No.

Mr. HAYES. Mr. Binder, if I understood you correctly, you are ripe for another loan?

Mr. BINDER. Yes, we are.

Mr. HAYES. Have you made application?

Mr. BINDER. No, I have not. I have been waiting to talk to the bank a little further because after 14 years you have got to have some kind of expertise with the bank alone. SBA loan, and the banks, when you go into a SBA loan, they tie you up hand, feet, neck, eyeballs, everything.

They cover the loan four ways: On the assets of the business; on the building that the owners, not the business itself, but the building that the family owns is also dedicated to the payment of the loan. Insurance has to be bought on the management so that the management is also tied into the situation if anything happens to them and also personal guarantees of all the owners of the corporation so it is tied in 4 years and, believe me, I don't see where the problem is or the expense is in the SBA other than running the office, because I think their loss ratio of loans against dollars lost is something around 3 to 5 percent?

Mr. HAYES. In that area.

Mr. BINDER. That is a cost and the cost of money differential from the rate that the loan is rate, I think it is dollars well spent. It is not a give-away program, far from it. You have to think 10 times before you get a SBA loan, because you look at the liability that they put on my back. If my business folds, I lose everything I have.

SBA is going to get paid. I am not talking against the SBA or the banks but they have guaranteed this loan every which way possible.

Mr. HAYES. You said in your statement that you are very supportive of the President. That is your right. But you also acknowledge you have been hurt by some of the rules. Are you ready to conclude that if the SBA is eliminated, as has been proposed——

Mr. BINDER. I don't agree with that.

Mr. HAYES. You would be hurt by that?

Mr. BINDER. Definitely.

Mr. HAYES. I am not blaming the President as much as I am David Stockman.

Mr. BINDER. I think the man has done a wonderful job with what he has. Looking at some aspects of business, the price of raw materials have not increased like they did some 5, 6 years ago. In other words, we could look down the road when I first got in business, a sack of sugar was costing me $8 a sack.

It went up to $62 a sack and now it is at about $20 and it has been there for some 2 to 3 years. When you look at it from a business standpoint, your raw materials are not increasing at a high rate or high percentage, and you are actually seeing decreases in the cost.

It makes it a lot easier to run your business, and as labor been increasing 50, 75 cents an hour every year because of the increase of cost of the products that the people are buying, their labor has to go up.

Mr. **Hayes**. I appreciate your answer.

Mrs. Boggs.

Mrs. **Boggs**. Mr. Moliere, I think it is remarkable that you are able to employ 300 people, many of whom would not be employed otherwise, that you take your employees from a pool of people who are under-employed or hard to employ. You have performed a social service as well as a business service and you should be congratulated for that.

Mr. Binder, so nice to see you again.

I don't know if the other members of the panel are familiar with this or not, but French bread in New Orleans is a very special kind of product, and it takes very special training and ingredients. It has to be baked often during the day, so it is labor intensified as well. I can't imagine New Orleans without French bread, so hold on there, if you will.

I am just so proud of you. I brag about you all the time, Ms. Ringstaff. I think that you are a prime example of a real classy New Orleans woman, and I am really proud of you.

Ms. **Ringstaff**. Thank you very much.

Mr. **Hayes**. Congressman Mitchell.

Mr. **Mitchell**. I don't have any questions.

Mr. **Hayes**. All right Mr. Moliere. You said your wages were low. I am not here to solve that problem, but it caught my ear.

Mr. **Moliere**. I have no problem with that. It is the nature of our industry.

Mr. **Hayes**. Not below the Federal minimum?

Mr. **Moliere**. No, sir.

Mr. **Hayes**. You mentioned you employ people who cannot find employment elsewhere.

Do you employ handicapped people?

Mr. **Moliere**. Yes, we do. What I meant by that statement, we don't have the type of people that transfer from job, to job, to job or people that were employed somewhere that are looking for better job opportunities, more benefits, things of that nature. The nature of our industry caters to the more or less hard-core unemployed.

Mr. **Hayes**. OK. Thank you very much for having appeared. We will look forward to your continued support.

Mr. Binder, get hold of that President of yours and tell him you want to live.

Mr. **Mitchell** [presiding]. Panel number four, dealing with Capital Ownership Development Program participants is next: Mr.

Robert Tucker, Jr., James Perez, Morgan Watson, and Levi Slaughter.

Thank you, gentlemen, for being here. You may proceed, Mr. Tucker.

TESTIMONY OF ROBERT H. TUCKER, FOUNDER AND PRINCIPAL, BOB TUCKER & ASSOCIATES, INC., MANAGEMENT CONSULTANT FIRM

Mr. TUCKER. My name is Bob Tucker, a resident of the city of New Orleans and the president of Bob Tucker Associates, Inc., a management consultant firm operating here in the New Orleans area.

I will not attempt to recite the litany of "for colored only" experiences that I experienced growing up here in New Orleans, save to say that it was not until roughly the late sixties that New Orleans enacted a public accommodations ordinance. That effort was in large part led by a young attorney by the name of Dutch Morial, and attorney A.P. Tureaud, and a host of other friends, including Mrs. Boggs, her late husband, Floyd Long's brother, and a lot of other people who believed New Orleans needed to join the 20th century in that regard.

I wish to set the stage in which I attempted to go forward and initiate my own business. I returned in 1963 as a Vietnam era veteran and decided I wanted to take a shot at business. I joined with a contractor friend of mine, an individual who was a veteran also, and who was a graduate of Tuskegee Institute in construction.

The two of us attempted to try to put together a low-income housing development. What we met with, when we went to the financial institution was a combination of sophisticated red-lining techniques, along with people saying the right things for the wrong reasons. The bottomline was a general insensitivity to our needs and our aspirations to try and develop a business.

I then stuck my entrepreneurial tail between my legs and marched off to join the ranks of the employed. I decided to seek the assistance of the U.S. Small Business Administration in the latter part of 1979.

I was not asking for capital funds. Rather, I was asking for capital ownership development. I guess I was not asking for a handout, simply asking for assistance as an aspiring entrepreneur. Thus my introduction to the much maligned, though very successful 8(a) Program.

The SBA represented for me the only ballgame in town where the opportunities for success outweighed the potential for failure. It afforded me an opportunity to go from being on somebody else's payroll to generating a payroll for others.

As a direct result of that SBA assistance that I received, I made a minor yet nonetheless healthy contribution to the welfare of my country. More specifically for the 4 years that I have been a participant in that program, though not necessarily to my liking, I've made enhanced contributions to the Federal, State, and local tax coffers. I have been able to positively affect the unemployment rate, and I'd like to believe that I have been able to at least present an alternative image for many young black men and women who are now posed with images that are not so desirable; at least those who are doing all kinds of things and media images that do not give them anything to aspire for.

I can think, Mr. Chairman, of no agency more vital to the entrepreneurial spirit in this country than the SBA. Equally as important is the contribution that has been made to the economy of our country by the thousands of jobs that have been generated by small business people.

The facts will not go away. The bulk of the new jobs that are being created in this country owe their existence to small business. I understand and agree with the efforts of the Congress and the President to try and reverse the downward spiral of this country economically. I also understand the need to try and chip off in some meaningful way the Federal and national deficit.

On the other hand, I would simply ask in our desire to get the country back into an economically manageable position that we not throw the baby out with the water. I would urge vigorously that your committee help make known to both the Congress of the United States and to the American public the very real contribution that the SBA has made in the lives of many, many people and the secondary impact that it has had in a very positive way in helping the economy of our country.

[Mr. Tucker's prepared statement follows:]

PREPARED STATEMENT OF ROBERT H. TUCKER, FOUNDER AND PRINCIPAL, BOB TUCKER & ASSOCIATES, INC., MANAGEMENT CONSULTANT FIRM

As the product of a segregated society during my early developmental years, I have cultivated a very intimate understanding of the term "disadvantaged".

Notwithstanding the best efforts of my parents to shield me from the viciousness of the fruits of segregation, I still carry many memories of growing up under a Jim Crow system. They include:

Utilizing a segregated public transit system to travel to and from segregated elementary and secondary schools.

Enduring a litany of "For Colored Only" experiences viz., water fountains, toilets, trains, buses, restaurants, etc.

Tolerating daily the racial stereo-types transmitted by the mass media.

However, I chose diligence over bitterness and determined that one day the ignorance of segregation would be discovered if not by law, then hopefully through enlightened self-interest.

In 1959, as a college freshman, I was arrested with Dr. Martin Luther King, Jr., and 118 other students. Our "offense" was that of non-violently attempting to eat at an Atlanta lunch counter, specifically (of all places), a federal cafeteria. Fortunately, as a result of our efforts, the proprietors of the establishment voluntarily integrated the facilities.

In order to finance my college education, I found it necessary to work during the summers. Once again, during this pursuit, I experienced the aliveness of racial prejudice.

Early, after being discharged from the military, I and a fellow minority in the contracting business attempted to get into land development for the purpose of building low income housing.

What we encountered was a mixture of sophisticated red-lining, blocked access to capital, and a general insensitivity to the unique needs of the aspiring small businessperson.

And so with my entreprenurial tail tucked between my legs, I went from an aspiring employer to an employee for the next several years.

On my second effort out, I decided to seek the assistance of the U.S. Small Business Administration. But instead of asking for capital funds, I sought capital ownership development.

Thus my introduction to much maligned, yet nonetheless effective, 8(a) program.

The SBA 8(a) program, represented, for me, the only ballgame in town where the opportunities for success outweighed the potential for failure, more importantly, the

SBA through this entreprenurial initiative afforded me a business thoroughfare that resulted in my going from somebody else's payroll to the generation of a payroll for others.

As a direct result of the SBA's assistance, I have made a minor, yet nonetheless, healthy contribution to the welfare of my country. More specifically, for the past four years that I've worked in the program, I've made enhanced contributions to the federal, state, and local tax coffers, positively affected the unemployment rate, and imbued some minority youth with a new vision of what their futures can be.

I can think of no agency more vital to maintenance of the entreprenurial spirit in this country than the SBA.

Equally important is the measurable contribution made to the economy of the country by thousands of small businesspersons who are the recipients of the agency's services. The facts will not go away. The bulk of the new jobs that are being created in this country owe their existence to small business.

I urge the President and the Congress not to throw the baby out with the water. Yes we must get a handle on the deficit. Yes we must provide for the nation's defense and domestic tranquility. But we must not extinguish the capitalistic spirit in the process.

Mr. MITCHELL. Thank you very much.

I would like Mr. Perez to testify next.

TESTIMONY OF JAMES BENITO PEREZ, PRESIDENT, BAYOU STATE SECURITY SERVICES, INC., NEW ORLEANS, LA

Mr. PEREZ. Thank you, Mr. Chairman, and Congresswoman Boggs.

Thank you very much for the opportunity to appear before this panel to convey my experiences with the Small Business Administration.

My name is James Benito Perez. I am president and sole stockholder of Bayou State Security Services, Inc., a company involved in providing security guard services, polygraph examinations, and other protection services to commercial, industrial, and government facilities.

I have a bachelor of science degree in criminology from California State University, 5 years U.S. Army Military Police officer experience, and 5 years as branch manager of a national security company.

I was successful during my tenure with the national security company, but my promotional opportunities were limited by my ethnic background. One only has to observe the national companies operating in the New Orleans area and note the absence of any minority managers or high ranking officials.

Realizing my limitations within the established structure, I started my own company in 1975. I first approached the SBA for a loan guarantee in 1976. I utilized the National Economic Development Agency to prepare the necessary loan packages. I soon realized that even with an SBA guarantee, banks were not willing to loan me the necessary funds allowing my business to continue.

I then approached the SBA for a direct loan and was granted this loan in 1976. During this time I was informed of the 8(a) Program and encouraged to apply for certification.

The year 1976 was actually our first year in business. We grew very slowly. In 1977, I started to expand and by 1980 my sales were at $900,000.

In August 1980, I was certified and issued my first 8(a) contract and am currently providing approximately $1,200,000 in commercial sales and $1,000,000 in 8(a) sales.

The recession of 1982 was devastating to many businesses in this part of the country. Many of our clients involved in the petrochemical industry were adversely affected by this recession and this company was faced with new pressures. Companies were going into bankruptcy that heretofore had been long established firms. I lost $25,000 in 1982 in bad debts and $400,000 in commercial accounts due to price cutting by a national firm who had been awarded a $20 million cost reimbursement procurement by the Department of Energy.

The SBA is the only voice of the minority small businessman. The advocates of eliminating the SBA don't live in our real world. The real world is that 100 percent of procurement agencies I have called on are headed by white males. A minority of these officals are actually concerned about providing business opportunities to minority and small business. Most are more concerned with maintaining the status quo in regards to procurement awards.

Will the President silence the only voice remaining for the minority businessman? We have seen the demise of the Federal Contract Compliance Agency. We have seen what big business will do without the encouragement of Government. I have seen NASA take away all their 8(a) contracts in New Orleans and award them to Martin Marietta, who needed the cash because of this fight with Allied. We happen to be a victim of two people fooling around. When the SBA complained, they were ignored.

The SBA Direct Loan Program helped me get my business started. It grew into a small successful business. I wanted more than a mom and pop operation. The SBA 8(a) Program is allowing me the opportunity to achieve that more. I can truthfully say that the SBA 8(a) Program has allowed me to compete with the giants in our industry. I haven't achieved all I hope to achieve, but I know I have a friend and advocate in the SBA.

The moneys generated by the 8(a) Program contracts have allowed me to put together a meaningful marketing effort. This marketing effort should allow me to remain a viable competitor after graduation from the 8(a) Program. I must reemphasize that this marketing effort would not be possible without the sales generated by the 8(a) Program.

The 8(a) Program has given me the opportunity to work harder. I don't consider it welfare. I have worked hard and long hours to achieve success. I haven't made it yet, but I have not stopped trying. I consider myself fortunate to have been selected to participate in this program.

I commend and congratulate those in Congress who had the foresight and courage to stand up for the fairness this program achieves. I thank you for opening doors that otherwise be closed forever. The President must be made to realize the real world of business opportunities for small and minority business. He must realize that when he has mandated increases in minortiy purchasing goals that are not achieved, surely these goals will not be achieved on a purely voluntary basis.

Again, thank you for allowing me to appear before this subcommittee and thank you for your continued support.

Mr. HAYES [presiding]. Thank you, Mr. Perez.

Mr. Watson.

TESTIMONY OF MORGAN M. WATSON, PRESIDENT, MINORITY ENGINEERS OF LOUISIANA, INC., BATON ROUGE, LA

Mr. WATSON. Thank you, Chairman Mitchell, Mr. Hayes, Mrs. Boggs. It is a pleasure for me to be here today to testify on behalf of shall we say saving SBA. I am a long time advocate of the SBA and I feel strongly that the agency should be preserved but I will even go a step further, and I say that the agency should be strengthened, not destroyed.

This is a viable agency that has goals and objectives that are right in tune with the American dream.

In my testimony I will outline ways in which I think it should be strengthened and not destroyed, and I will also give you an example of a firm that was headed almost nowhere when all of a sudden we were admitted into the 8(a) Program and from there things really started to happen.

I am a native of Louisiana, born and reared in Tensas Parish in north Louisiana and I attended Southern University where I received a degree in mechanical engineering in 1966 and a master's degree from LSU in 1971 and did advance work toward a Ph.D. in 1972, and 1973 I stopped short of receiving the degree only to go into business.

I served as associate professor of mechanical engineering at Southeastern University for 10 years and visiting professor at LSU. I was chairman of the engineering department before I resigned to go into business.

That President Ronald Reagan proposed that the Small Business Administration be abolished is a fact of great concern to small businesses in general, and small minority businesses in particular. It seems that once the agency really started moving in the right direction it is headed for the ax of budget cuts. It is my belief that this move would do very little to cure the problem of the huge Federal deficit, but would remove any hope that small and minority businesses have of realizing the American dream. It would mean an end to the SBA guaranteed loans to new and existing small businesses, an end to the 8(a) Set-Aside Program, an end to the small business advocacy programs, and an end to technical assistance programs so badly needed by small businesses. Without SBA, how would this vacuum be filled? The Reagan administration does not have the answer. The fact of the matter is SBA should be strengthened, not destroyed. I will present my proposal for strengthening SBA and elaborate on the assistance that my business obtained from SBA that caused it to grow, and not disappear as it was headed prior to being admitted to the 8(a) Program.

Admittedly, SBA has had, and still has, its problems. In some cases, because of past problems, the image of the agency is not good, both within the Federal Government and within the private sector. Sure, it could run more efficiently, as could the entire Federal Government, but give SBA some teeth and make it the agency for developing small and minority businesses, and providing them with technical and financial assistance, and contract supports, cutting across all bureaucratic lines in the process. For example, the Navy should not run its own minority business program with no regard or respect for SBA's 8(a) Program. Of course, other agencies do the same thing. So, rather than further fragment an already fragmented effort, regulations should be put in place that would consolidate all small and minority business assistance programs and put them under the control of SBA. This would eliminate duplication and save money in the process.

Many of the Federal programs—and officials—presently charged with the task of aiding minority businesses actually hinder them by: first, discouraging them; second, confusing them with eloquent rhetoric; third, deceiving them by declaring them ineligible for programs or funds earmarked for minorities, or by leading them blindly into losing situations; fourth, causing long delays, and creating uncertainties and false hopes; fifth, requiring massive amounts of paperwork that in many instances is considerably more than would be required for a nonminority business; and, sixth, making financing difficult to obtain.

As for minority businesses, the administration should not simply encourage minority participation on Federal and federally funded projects, but should insist through regulations that all segments of our economy utilize minority firms as much as possible.

This would require that records be kept and circulated by SBA on: first, the number and capabilities of existing minority businesses; second, the names of minority firms expressing genuine concern for particular jobs; third, data on firms actually awarded work through the efforts of the administration; fourth, data on firms that are doing business with minority firms; fifth, listings of Federal, municipal, commercial, industrial, and private agencies who, through affirmative action and other programs, desire to utilize minority businesses.

Thus, SBA would serve as a clearinghouse for matching minority businesses with prospective clients, and vice versa. Since each Federal agency presently has its own civil rights or affirmative action regulations regarding minority businesses with no nationally coordinated effort, the strengthening of SBA and the transfer to SBA of the separable functions from other Federal departments and agencies that relate to the development of minority business enterprises, would do away with fragmented effort that now exists and provide the badly needed coordination of the Federal effort as it applies to minority business enterprise.

Thus I say strengthen SBA, not destroy it.

The plight of my firm, Minority Engineers of Louisiana, Inc., is a classic example of the struggle that a small minority owned and managed business faces in getting started and becoming successful. Since we are design professionals, the road has been rougher, because until recently, minorities were excluded from employment with the private consulting firms, and in the Deep South it was even worse. As a result, we had no real concept of what engineering consulting was all about. Prior to the founding of MEL, I tried unsuccessfully to offer my service to consultants in Baton Rouge. I was willing to work for no monetary compensation in exchange for learning the technical aspects of consulting, not the administrative, or marketing or even the political aspects of the business, just the technical. I was associate professor of mechnical engineering at Southern University at the time and wanted to expose my students to real-world problems. Needless to say, I could not even give away my services, which was emotionally demoralizing since I had a master's degree and was a registered professional engineer in mechnical engineering.

MEL came into being on September 1, 1972, as the attached "Overview" outlines. Selling stock among the founding members of the firm yielded $5,500, which allowed us to operate for 9 months before any other funds were generated. Another stock sale to members yielded $2,750. From that point on, operation of the firm has been supported with funds generated by fees from engineering projects. Our first office was a 12x48 foot trailer and our first full-time engineering employee earned only $300 per month for the first 18 months of our existence. Our development has been an uphill struggle. Our overhead was high to the point of not showing a profit during our first 5 years of existence, but not because of inefficient management, just due to the chronic lack of money to manage, that is, the lack of projects. Our clients included architects, the Louisiana Department of Highways, East Baton Rouge Parish School Board, East Baton Rouge City-Parish, Housing Authority of New Orleans and several small municipalities. We did not receive our first Federal project until 1978, and things did not really start to happen until we obtained 8(a) certification in 1980.

The road from disgust to success has not been an easy one. In fact, it has been very difficult and filled with disappointment and disillusion, but with SBA the measure of success that we enjoy would be unattainable with the limited resources that we started with. To illustrate our disgust prior to 8(a) certification, we present the following:

One, we were denied a loan by several banks because the corporation had too few assets and the proceeds from the loan would be used for working capital rather than buying equipment or something they could seize if the business failed. The net worth of the individual principals was not enough to secure even a $25,000 loan, that is, we were too young and didn't own any property, stock, bonds, or have any other securities.

Two, on our first attempt to secure a Federal project we were told that we are in a noncompetitive status. We thought this meant that we could not bid on projects—which we know is against engineers' code of ethics, but were told it meant that we weren't big enough. Can you imagine an organization with the personnel and the credentials that we have being too small to do business with the Federal Government even on Small Business set-asides? We had done several projects at that time, so maybe the official meant we were inexperienced. Anyway, he suggested we apply for SBA's 8(a) Program.

Three, upon approaching an official at our SBA district office, New Orleans, we got the shock of our lives. After presenting the credentials of the principals—prior to completing the application—we were told that because of our education we no longer qualified as being "socially or economically" disadvantaged. But in each case the degrees we held were the minimum requirements in order to be registered as professional engineers or be recognized in our respective fields. So this meant that we were too poor to obtain a loan, too small to obtain a Federal project, and too well-educated to be declared socially and economically disadvantaged. Sounds like as far as obtaining assistance from the Federal Government, we were between a rock and a hard place. This was 1975, 10 long years ago.

Four, we decided to file an application for the 8(a) Program anyway. It got lost somewhere, but someone in SBA headquarters told us he distinctly remembers seeing it before it got misplaced, and his feelings were that we were ineligible because we were professionals—as opposed to contractors—and no Architecture/Engineering [A/E] projects have ever been awarded through the 8(a) Programs and probably none ever will, since no A/E firm in the whole country has been approved for the 8(a) Program.

Five, we tried again, and finally identified three Federal agencies that wrote letters to SBA promising to offer engineering projects to the 8(a) Program if MEL were certified. Well, that did it, and on May 14, 1980—5 years after our first attempt—we were approved for participation in the 8(a) Program. Although we had been awarded several Federal projects by that time—the first paid a $300 fee to design a system to light the flagpole in the Port Hudson National Cemetery—things really started to happen for MEL.

The company has grown from 12 full-time people in 1977 to 33 in 1980 to 106 at one point in 1984. Presently our staff consists of 71 full-time people but will increase in the very near future due to several new contracts, including at least two via the 8(a) Program.

During our nearly 5 years in the 8(a) Program our sales have increased dramatically, as these figures reflect for fiscal years September 1–August 31 1980–85:

	Total sales	8(a) sales	Percent
Fiscal year:			
1980	$1,369,580	$0	0
1981	1,782,874	43,012	2.41
1982	1,906,710	722,307	37.88
1983	4,848,472	3,747,866	77.30
1984	4,669,253	2,851,421	61.07
1985 (6 months)	1,712,238	737,633	43.08

Our largest contract was an 8(a) contract for $3.2 million from the New Orleans District, Corps of Engineers awarded in 1982.

With one exception, the company has made a profit each year during that period and used that profit to finance growth. Several of the contracts required large start-up costs in the form of equipment and working capital, and we were not able to obtain financial assistance from SBA or any source to cover these costs. However, we made it through that crisis and now face another set of problems due to the fact that our 1986 graduation date is nearing. A large portion of our sales are 8(a) contracts and 99 percent of our income comes from Federal, State and local governments, thus we need to broaden our contract base to include the private sector. In order to remain competitive upon graduation from the 8(a) Program a better computer system, including an integrated automated surveying system and CAD system are needed. We hope to obtain these with SBA financial assistance. Several other problems, including a full-time marketing person, must be solved prior to graduation. But these are "good" problems compared to those we faced during our pre-8(a) period of disgust.

The fact that MEL has obtained tremendous contract support via the 8(a) Program, management assistance via the 7(j) Program and counselling via SCORE, but no financial support via guaranteed loan, direct loan, business development expenses or advance payments is an indication of SBA's internal problems. The Agency is by no means perfect, but as a minority business development agency it cannot be beaten. The regulations that make it difficult for the disadvantaged businesses that the 8(a) Program assists through contracts, to obtain financing in the form of loans, BDE and advance payments need to be relaxed in an effort to strengthen SBA and improve its image. These are by no means big problems that cannot be solved and SBA does have other problems that should be solved, too, but the good outweighs the bad by a long shot. I know of no other agency equipped to coordinate the Federal Government's Minority Business Enterprise [MBE] Program better than a strong SBA. I urge you to put pressure on the Reagan administration to consolidate all the Federal MBE Programs under SBA and do not destroy the agency that has helped far more minority businesses than any other agency. Strengthen, not destroy SBA.

[Mr. Watson submitted the following overview:]

OVERVIEW

MEL, Incorporated is a minority owned multidisciplinary consulting engineering firm that is equipped to meet the demands of governmental, private, commercial and industrial clientele, while giving full consideration to quality design and economic, asthetic and environmental factors. Since the firm was founded in 1972, MEL has been soundly staffed and operated by professionals with proven experience and expertise in their respective disciplines. The quality of work produced by the firm has enabled it to expand from ten (10) part-time engineers to a full-time organization of three (3) principals and nearly eighty (80) technical, professional and management staff persons. Headquartered in Baton Rouge, Louisiana, the firm has a branch office in New Orleans, Louisiana, and has been able to undertake projects both regionally and nationally.

With over twelve (12) years of operational experience, the firm is equipped to offer its clients a comprehensive range of engineering design and related development services. Project assignments have included all aspects of a project from initial consultation and study through all phases of design, as well as construction observation and inspection.

Major disciplines in which MEL offers consulting services are as follows:

CIVIL AND STRUCTURAL ENGINEERING

Urban and Rural Highways
Elevated Highway and Expressway Systems
Bridges (Fixed and Movable)
Flood Control and Navigation Structures
Industrial and Commercial Buildings
Sidewalks and Street Improvements
Port Facilities
Industrial, Commercial and Residential Site Development
Airport Runways
Parks and Recreational Facilities
Parking Facilities
Water and Sewerage Treatment Facilities and Systems

Pumping Stations (Sewerage, Drainage and Waste Water)
Surveying (Topographic, Hydrographic and Cadastral)
Transportation Location Studies
Hydrological Studies

MECHANICAL ENGINEERING

HVAC Systems
Plumbing and Process Piping
Heavy Machinery
Dust Collectors
Pneumatic Systems
Material Handling Systems (Conveyors)
Heat Transfer Systems
Solar Energy Systems
Energy Management

CONSTRUCTION ENGINEERING SERVICES

Value Engineering
Review of Shop, Working and Erection Drawings
Resident Inspection and Observation
Construction Contract Administration
Coordination of Testing Program
Construction Layout

Management and leadership for MEL is provided by its three (3) principals plus a Management Committee composed of key employees. The Principals are:

Morgan M. Watson, (M.S.M.E.), P.E., President

Watson serves as the Chief Administrative Officer of the Company with ultimate responsibility for basically all its activities inclusive of project scheduling, cost control and technical review. He also has the primary responsibility for identifying and pursuing new business opportunities for the Company. Watson's areas of technical specialization include HVAC, energy conservation, alternative fuels and solar energy utilization.

Press L. Robinson, (Ph.D.), Vice-President and Treasurer

As the Chief Fiscal Officer, Robinson is responsible for all day-to-day business and financial affairs of the Company. He also applies extensive expertise gained as a Research Chemist and Chemistry Professor in his role as Manager of Environmental Sciences projects for the Company.

Thomas F. Phillips, (M.S.C.E.), P.E., Manager of Operations

Phillips joined MEL as Manager of Operations after spending sixteen (16) years as Civil/Structural Engineer with the New Orleans District, Corps of Engineers. He is responsible for the coordination of all engineering activities (inclusive of quality control) of the Company as well as the management of construction projects and the design of major structures.

Mr. HAYES. Mr. Slaughter, did you submit written testimony to us?

Mr. SLAUGHTER. No, I did not.

Mr. HAYES. It would be beneficial. Let me explain why. These proceedings are recorded, and obviously, the transcripts are distributed to all the members of the Small Business Committee, and the Members of Congress have access to it. That takes some time, so therefore, in the interim, we have to use your written testimony for distribution.

TESTIMONY OF LEVI SLAUGHTER, SLAUGHTER ASPHALT PAVING CO.

Mr. SLAUGHTER. I was out of town, and time slipped up on me. I will forward it to you.

Trying to follow this gentlemen here is going to be kind of hard for me. All of my thoughts and experiences he just about related, but my company, Slaughter Asphalt Paving Co., we are more of a high risk. We do construction.

While I was a Korean veteran, after coming out of the service, I decided to go in business. I was employed for America Sugar Co. as a technician there. The first couple of years, I tried kicking around trucking, which was of no avail, and they had a program—the name of the program I am trying to think of—it was Government funded to more or less recruit contractors, to give them the expertise of how to get into the contracting business.

I forgot the name of it.

Mr. MITCHELL [presiding]. That is all right.

Mr. SLAUGHTER. Anyway, after the first couple of years of trying to make it with the trucks, it was just a disaster, so I said there must be something better than trucking. By that time, it was 1965 when I tried the trucking business, and I tried to acquire a loan from SBA at the time, and you needed a little resource in order for the banks to give you a loan.

You will have to forgive me, I am not a public speaker.

Mr. MITCHELL. Don't worry about it. Neither am I, so just take your time.

Mr. SLAUGHTER. After the first year or two of the hard knocks of the business, we wasn't getting anyplace with it, so I decided to go to SBA for a loan to buy a truck. It wasn't too successful, at the beginning, it wasn't too successful.

After I was in business for the first year, trying to use trucks, I saw trucking wasn't the answer, so I decided to go into asphalt paving. After we started asphalt paving, then ABCO was the company that was funded.

After SBA certified me as an 8(a) contractor, the first 2 or 3 years, we got a little $18,000 contract with the Coast Guard, and we got one with the radio station, and we stayed dormant for so long.

There was not very much asphalt work in the program. In 1981, we got one contract, we had an 8(a) set-aside, it was with the U.S. Public Health, I think it was $52,000.

Then the Coast Guard had a little job for $100,000. After the $100,000 project we had with the Coast Guard, we had several contracts come down from SBA in the last years. Well, our time was just about up, because we stayed dormant, so we asked for an extension of time.

They granted us another year, so we graduated the latter part of 1984, but even in the last years, I would say that SBA, so many people that don't know the whole function, I just know one little facet, which is a little bit of construction, not much of it, but if it was not for SBA, my company wouldn't have grown to the state that it is in right now.

We went from a $50,000 sales to about $7 million sales within a 3-year span, and although the program ended too quick, I would say it is vital that SBA stand, more or less, to keep smaller contractors afloat because the market now, we are getting quite a bit of flak from some of the AGC firms that we are a threat, but we are not a threat.

There are smaller contractors, more or less. Every time there is a job awarded a smaller contractor, if he can't handle it, some of the majority contractors benefit from it. In the market today, the big contractors take the only thing that is on the market right now, and there is no way that a smaller contractor can survive.

The market price for asphalt paving is $30, in this area. The majority contractors will bid it $26 in place, so that automatically kicks a small contractor out of the box. With fair market price, SBA for contractors that are smaller, I think, is really vital.

That is just about all I have to say, and I apologize for not preparing you a statement.

Mr. MITCHELL. That is all right. I understand how those things happen.

Let me thank all of you, and just make one statement before I raise some questions.

The 8(a) Program has been under attack, Congressman Hayes, and Congressman Mitchell and Congresswoman Boggs have been under attack, because we support the 8(a) Program. It is the kind of thing that is presented in your testimony which shows that it can work, provided you have the perseverance and the guts to continue to fight for it, and it is beneficial.

I was particularly interested in your comments, Mr. Perez, about how that structure at the time, certain portions of the private sector, excluded you. That is a reality, and as long as these kinds of realities exist in America, it is the duty and the responsibility of the Government to address them.

How many employees do you have, Mr. Slaughter?

Mr. SLAUGHTER. About 60.

Mr. MITCHELL. Mr. Perez.

Mr. PEREZ. I have 160, sir.

Mr. MITCHELL. Mr. Tucker.

Mr. TUCKER. Seven full-time and sixteen part-time.

Mr. MITCHELL. Mr. Watson.

Mr. WATSON. Seven, and one.

Mr. MITCHELL. We are talking about 230 jobs made available from 8(a) firms, and that is fantastic. If this program is eliminated, I am not at all sure, even given your enormous capabilities and qualifications, that you could maintain that level of employment at this stage of your development without the assistance of SBA, the 8(a) part.

How many of you presently have Federal contracts, all four of you? Did you go out and find your contract?

Mr. **Perez**. No, sir; they had belonged to a previous 8(a) contractor.

Mr. **Mitchell**. The SBA found those contracts for somebody, and you benefited. Did you find yours?

Mr. **Watson**. Yes, we did. Our business is a little bit different in that many of the Federal agencies have a selection process for engineers that pretty much conflicts with the SBA 8(a) Program, so by self-marketing, we were able to ask these agencies to try SBA's 8(a) Program, so yes and no, our projects come from the SBA but we do a little behind the scenes work to aim them in that direction.

Mr. **Mitchell**. Mr. Tucker, what is your situation?

Mr. **Tucker**. Because of the nature of what we do, being a kind of general services management entity, I must necessarily go and do battle with the beltway bandits. There are not a lot of requirements, notwithstanding the fact that the existence of the work is here.

We have the Department of Energy that has $1 billion a year procurement over a 5-year period that is domiciled here in the State of Louisiana.

I have to go over and do battle with them. The other problem is the absence of the decentralized thrust for people like ourselves in trying to reach out into the hinterland of the SBA geography to reach us.

The work I presently have has been self-marketed.

Mr. **Mitchell**. Mr. Slaughter, some of those contracts that you got were obtained by the SBA for you?

Mr. **Slaughter**. Right.

Mr. **Mitchell**. I don't care how you do it, whether SBA goes out and finds the contracts and matches them up with you, or whether you go out and find the contract on your own and notify SBA, I will sit here and tell you that you probably would not get any of them if you market yourselves unless there was an SBA to back you up. It is just not going to happen.

I am ambivalent right now. That is the wrong word. I am mad, I am angry, because, damn it, there is no reason to move programs like these that employ young people. There is no reason to make that effort and truncate it on the whim and fancy of one man, David Stockman.

Excuse me, Mr. Chairman, it is enormously irritating. Your testimony has helped us significantly in making our case, and let's just keep it going.

I didn't mean to make a speech, the first one I made in 2 days. Mr. Chairman, thank you for letting me make some comments.

Mr. **Hayes** [presiding]. Mrs. Boggs.

Mrs. **Boggs**. Thank you, Mr. Chairman. I thank you all for your excellent testimony. It will be enormously helpful to the committee in its deliberations. I am very pleased that you came to share your knowledge and your experiences with the committee.

Thank you.

Mr. **Hayes**. To each of the panelists, we appreciate your help in appearing before us, and we will enter your statements in the record, as you have been told. I have a lot of admiration for your perseverance, Mr. Watson, given the kind of training that you have had, the kind of just stick-to-itness, and you are the kind of role model that we should look to.

Mr. Slaughter, you said you are 65 years of age, you have really been preserved. I would like to talk to you sometime.

Mr. **Hayes**. I would like to call the next panel, the Small Business Development Center clients, Mr. Baker, Mr. Smith, Ms. Colvin, Mr. Boyle, Mr. Morel, Mr. Horton. All of you will come forward.

TESTIMONY OF CHARLES W. BOYLE, JR., FLETTRICH ENGINEERING SERVICES, INC.

Mr. **Boyle**. My name is Charles W. Boyle, Jr., an employee of Flettrich Engineering Services. They have been in business for 45 years.

I am not a principal in the company, and our speciality or the work we do is in the maintenance and repair business, and in the engineering service business regarding HVAC systems.

If I refer to that term again, HVAC is heating, ventilation, and air-conditioning.

I am a professional mechanical engineer, one of three in the company, and I have been with the company for 12 years. My job responsibilities, in order of this significance, and the time they take from me, are probably a board engineering design, a sales of engineering and equipment sales, technical consultant to the service company, public relations man for customer complaints, sweeping floors, and emptying garbage cans.

The company has approximately 12 to 20 people working for it, depending on the activity level, and over the last 3 years, things have been tough. It has not been a profitable business.

Our gross volume is in the neighborhood of $1 million a year. My experiences regarding the SBA are more limited than some of the other people who have participated in this panel discussion today.

We had a total of approximately three meetings with the SBA representatives at the university, and we use their expertise as consultants for our company, and I will say that with the use—with those three meetings, we certainly did get a large return on their hourly investment in us.

What I would like to do now is just read briefly what I have written regarding our work through them.

In 1982 through 1985 our company, recognizing that competition was increasing and volume of business was dropping, began searching for ways of increasing our share of the market.

Our investigation revealed that the chances for improved profits could be most effectively accomplished through increasing the number of customers who use our routine maintenance services.

Through a cassette tape, "Profit Strategies for a Closely Held Company," I was made aware that marketing, as well as other business functions which are necessary for successful business operation, was almost nonexistent in our company.

The same cassette also said that valued services can often be obtained through the Small Business Administration and local universities. Shortly thereafter, I contacted Mr. Mike Cusack and arranged a meeting.

To the best of my recollection, three meetings were held which were attended by David Flettrich, vice president of engineering, and myself from our office, and by Mike Cusack, Ken Lacho, and Ray, an MBA graduate student, representing UNO and the SBA. I am not sure how many of the UNO representatives were present at each meeting.

During the meetings, we explained the operation of our business and provided samples of our very limited marketing correspondence and a description of our advertising efforts.

All parts of our business were discussed and there was general agreement that we needed a marketing plan and strategy.

Our preliminary plan was reviewed and discussed in an open meeting, and Dr. Ken Lacho provided written comments on how we could improve and implement the plan. Advertising was discussed and valuable direction was provided by the SBA team.

It is difficult to explain the benefits gained through these meetings, but I was definitely enlightened regarding the operation of our company.

Subsequent to these meetings, we hired a marketing graduate and began a mailout and followup telephone call effort to increase business. A folder and pamphlet were prepared to facilitate a more professional and effective proposal.

We presently have about 1,500 potential customers on our mailout list, and we plan, in the future, to pursue additional advertising through magazines like Citi-Business.

Through our initial contact with SBA representatives and our work over the last year or so, we have come to recognize additional business functions in our organization which must be strengthened.

With our limited financial base, I certainly hope that the Small Business Administration can again help us with our problems.

I have a brief closing statement, too. I would like to say that, and it has been said once before, I am generally behind the President in his method and policies. However, over the last 12 years, I have developed some empathy for the problems of small businesses and companies.

During these times, small companies don't have time to learn from their mistakes. They don't have the money or the time, and the kind of professional services offered through the SBA, at least the kind we experience, are a bargain, a bargain when bargains are very tough to find.

I think they are worthwhile for the Government, and they certainly service a definite function for business.

I thank you.

[The folder entitled "Flettrich Engineering Services, Inc.," is in subcommittee files.]

Mr. **Hayes**. Thank you, Mr. Boyle.

Your statement in its entirety will be entered in the record.

Mr. **Boyle**. Thank you very much.

Mr. **Hayes**. Mr. Baker.

TESTIMONY OF JOHN BAKER, DIRECTOR, LOUISIANA STATE SMALL BUSINESS DEVELOPMENT CENTER

Mr. **Baker**. Chairman Hayes, Congressman Mitchell, my name is John Baker. I am the director of the Louisiana Small Business Development Center. My office is located in the College of Business Administration, Northeast Louisiana University, Monroe, LA.

I appreciate this opportunity to testify before this committee regarding the Small Business Development Center Program in our State.

The Louisiana SBDC was authorized less than 2 years ago, on July 15, 1983. During its first year of operations, there were only nine participants in the consortium. In this, its second program year, the LSBDC is a 12-member consortium formed through the cooperation of 10 State universities, 1 private university and the Louisiana Department of Commerce [DOC].

Through these university-based delivery units, counseling, research, and training assistance is made available to all existing and potential small businesses in each of Louisiana's 64 parishes.

The basic purpose of the LSBDC is to provide broad-based management and technical assistance to existing and potential Louisiana businesses through coordinated use of local, State, and Federal programs; private sector assets; and resources available at the several delivery units.

The basic functions of the LSBDC Program are to:

Provide 1-to-1 short- and long-term counseling services for potential and existing small business owners by faculty, professional staff, and skilled volunteers working in cooperation with the several delivery units.

Conduct workshops and seminars to keep small business persons aware of current events, changing trends, and sound, up-to-date practices in today's business environment.

Provide a resource library and information resource center at each delivery unit site.

By the end of 1984, during less than 18 months, the LSBDC had counseled 1,776 clients. Many of these clients were businesses with problems, others were businesses with new opportunities and plans.

Other clients were persons with ideas, both good and bad ideas, some with and most without adequate plans, who wanted to embark on a new business venture or to purchasing an existing business.

We have helped clients to prepare business plans, to develop marketing strategies, to schedule cash needs, to obtain financing, to identify suppliers, and to evaluate their ideas more objectively.

During this same period, the several delivery units have conducted 135 training programs on a variety of topics of interest to owners and managers of small businesses. These programs were attended by 5,018 persons.

Additionally, the LSBDC conducted several programs of statewide interest and emphasis in the following areas:

A statewide, 1-day seminar on small business innovation research and on "Doing Business with the Federal Government" in Lafayette.

A series of special 1-day entrepreneurship programs at selected locations throughout the State for Vietnam-era veterans.

A series of 1-day seminars emphasizing export opportunities in international trade have begun and are continuing.

And a statewide, 1-day small business contact opportunities day, in Baton Rouge, during which Louisiana small businesses were afforded the opportunity to meet at one location with 70 representatives of prime contractors, Federal and State agencies and purchasing offices.

LSBDC delivery units at the University of New Orleans and at Northeast Louisiana University have published a "Small Business Guide" for their respective cities.

In addition to basic management assistance, LSBDC clients have access to patent search assistance through the LSU/BR delivery unit; innovation evaluation through the Department of Commerce and the LSU/BR Innovation Center; and international trade assistance through the LSBDC International Center at the University of New Orleans.

All LSBDC delivery units are directed by professionals from varied business backgrounds, including accounting, marketing, management, law, computer science, consulting and research. All except one director have faculty status as well as experience in the private business sector. Many serve on city, regional and State boards and in organizations which promote economic development and small business. Since the LSBDC is university-based, there is easy access to all types of business and technical skills that a client might require. Additionally, students are afforded the opportunity to practice the real-world business skills which they have studied in the classroom.

Delivery units leverage their skills through coordination and cooperation with chambers of commerce, better business bureaus, SCORE/ACE, industrial development boards, regional planning districts, the Louisiana Association of Business and Industry, and other small business support organizations.

Governor Edwin Edwards and Secretary of Commerce Ron Faucheux have demonstrated a strong commitment by the State of Louisiana to the success of the SBDC Program here. In our second program year, the Louisiana Department of Commerce provided the LSBDC with a budget line item of $300,000. This and the contribution of participating universities enabled the consortium to obtain sufficient additional SBA funding to add three delivery units and an International Trade Center, which serves the entire State. This substantial Louisiana financial support is expected to continue in the new fiscal year.

The LSBDC is a relatively new organization. This year, we tried to make our goals a little better, and we are still exceeding them in the current year. Quantitatively, we exceeded counseling goals by more than 64 percent and training goals by more than 72 percent during our first program year. We expect to do as well in the current year. Qualitatively, we are too new an organization to state with certainty our effect on jobs, taxes, sales, et cetera. Continuing close relationships between LSBDC delivery units and chambers of commerce and other small business support organizations; clients who return for additional assistance; close cooperation with the

Governor's Office of Minority Business Development; the Governor's Office on Women's Business Enterprise, and other programs which emphasize the special needs of minorities, women, veterans and others; and the continuing support of the Louisiana Department of Commerce demonstrate that we are having a positive effect. Additionally, letters of support are positive regarding our services.

In order to demonstrate that impact more clearly, Dr. John Elstrott of Tulane University and I agreed early last month to jointly conduct the research necessary to demonstrate the specific impact of the LSBDC Program. We will be replicating an earlier study of the South Carolina SBDC Program. Dr. Elstrott has modified the original questionnaire and is having it evaluated at this time. I will correspond with clients and request their assistance in a way that protects the confidentiality of information which they have provided to the LSBDC. It is our plan to complete this study by late summer of this year.

In summary, the Louisiana Small Business Development Center is an effective public and private partnership which coordinates and delivers quality management counseling to a sector of Louisiana's small business community that might otherwise find such assistance too expensive or unavailable.

Thank you for your consideration.

[Miscellaneous brochures and correspondence attached to Mr. Baker's testimony are being held in subcomittee files.]

Mr. **Hayes**. Thank you, Mr. Baker.

Ms. Colvin.

TESTIMONY OF JOHNNIE COLVIN, BUSINESSWOMAN, RUSTON, LA

Ms. **Colvin**. I am Johnnie Colvin, a businesswoman, and I hold one U.S. patent, with another pending.

I bring you greetings from my hometown of Ruston, LA.

Thank you for the opportunity to appear at this hearing. When I became aware of President Reagan's intentions to attack the budget deficit and possibly eliminate the Small Business Administration in its entirety, I became very concerned. I love this country of ours, and I thank God that we, as private citizens, can make our feelings known to our public officials and that they, in turn, will give audience.

I realize that a number of our Government programs will have to take budget cuts. I am in agreement with this, but I feel we must try to establish first the productivity of the different divisions of these programs so that justification of the cuts can be made accordingly.

I am particularly interested in continuing Small Business Development Centers in our colleges and universities. I feel sure I wouldn't be where I am today in the development of my own invention had it not been for the SBDC's. The brilliant and compassionate people in these centers gave me hope and help when I came to roadblocks in the development of my own invention. There is a long story as to how I finally got acquainted with the SBDC's many instances and personalities involved.

I received my first U.S. patent, dated January 26, 1982, followed by many offers of assistance which I felt were less than valid. By the summer of 1983, I had spent all the money I could justify and had reached the conclusion that I needed more expert help than I could individually afford. Mainly in the field of research at that point.

Soon a prayer was answered. I received an invitation to a 1-day seminar, especially for inventors, at NASA near Bay St. Louis, MS. The seminar was cosponsored among others by Louisiana Alliance of Innovators in Technology, and the Northeast Louisiana University Small Business Development Center. It was fantastic. I joined LAIT that day, July 22, 1983.

I had to drive to Baton Rouge the first Thursday of every month for the meetings with LAIT on the LSU campus. I found out that I could get my invention evaluated at the LSU Innovation Center for a very nominal fee. Immediately, I made an application, and I have attached a copy of that study to my written testimony for your information.

Many good things were happening for LAIT's membership. We found a wealth of talent, dormant and wasting, due to a lack of funds and resources throughout the State. I was asked in March 1984 to contact Dr. Paul Dunn at NLU's SBDC to see if they would help us form a north Louisiana chapter of LAIT.

Much good has come from this alliance. The NLU SBDC has been instrumental in helping LAIT get established in north Louisiana. They enthusiastically gave their assistance. I furnished them with a partial list of prospective members found at the LSU Patent Depository Library; they added other names from their contacts.

Dr. Dunn furnished labor and materials for mail-outs announcing an organizational meeting. We chose Ruston for the first meeting since it was centrally located for all north Louisiana.

We had Bill Girior, State president of LAIT of New Orleans; and Regis Allison, from the Louisiana Department of Commerce and Industry in Baton Rouge attend the meeting.

In addition, Dr. Dunn brought a group of support people, Mr. John Baker, director of Louisiana SBDC, and Dr. F.D. Wadsworth, a research chemist of Columbia Carbon, to name a few who came and spoke at that meeting. Surprisingly, there were over 60 people in attendance that night. LAIT needs the SBDC.

Recently, I had appointments with national and international plumbing manufacturing firms. I called Dr. Dunn on short notice for help with my presentation. He came to my house in Ruston on a Saturday afternoon. I felt like I had a shot of B12 when he left.

With Dr. Dunn's coaching on negotiations and the University study with me, I cannot tell you how much confidence I felt and how well the manufacturers received my presentation.

Negotiations are pending now and a very large retail chain has indicated that they will put the product in all their stores, if I can get it produced.

There is no telling how many fine inventions have never made it to the marketplace because the inventor did not know where to turn for help. The SBDC is that source of help.

I have told you about the many things the SBDC has done for me and other inventors. I also want to mention that the center is also well-known in our area for assisting potential and already established businesses.

While holding positive thoughts that I will sell license rights to my patent, I am not forgetting the support already pledged by the SBDC to help with a business plan, if I decide later to start from scratch and manufacture the product myself.

I would surely like to know that if I couldn't arrange adequate capital by myself that I could turn to SBA. Remember that everything that is, was once a thought. Let's think of a way to keep the SBDC and other vital management assistance functions of the SBA which help retain and create jobs in our country.

Thank you.

[The preliminary invention evaluation of the "Say" is in subcomittee files; Ms. Colvin's prepared statement follows:]

PREPARED STATEMENT OF JOHNNIE COLVIN, BUSINESSWOMAN, RUSTON, LA

Good morning I am Johnnie Colvin, I am a business woman and hold one patent with another pending. I bring you greetings from my hometown of Ruston, Louisiana.

I want to thank you for this opportunity to appear before this committee. When I became aware of President Reagan's intentions to attack the budget deficit and possibly eliminate the Small Business Administration in its entirety, I became very concerned. I love this country of ours, and I thank God that, we as private citizens, can make our feelings known to our public officials and that they in turn will give audience.

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I received a patent on January 26, 1982. In addition, I received many offers of assistance which I felt were less than valid. By the summer of 1983, I had spent all the money I could justify and had reached the conclusion that I needed more expert help then I could individually afford.

Soon a prayer was answered—I received an invitation to a one-day seminar at NASA near Bay St. Louis, Mississippi. The seminar was co-sponsored by Louisiana Alliance of Innovators in Technology (LAIT) and the Northeast Louisiana University Small Business Development Center. It was a fantastic seminar. I joined LAIT that day, July 22, 1983.

During the fall of 1983, Mr. Ryan Chappel with a firm called Euroboard, Incorporated, of Monroe, Louisiana, called and suggested that I get in touch with Dr. Paul Dunn at the Northeast Louisiana University SBDC because he felt that he might help me with my project at that stage. I called and got an appointment of 3:30, November 30 at his office at NLU.

I will never forget that day. I still did not have a working prototype of my invention, so I carried some rather large color renderings of my project. Dr. Dunn had no idea what my invention was at that point. It was also the first interview that the young Assistant Director of the NLU SBDC, Miss. Miriam Watt, had sat in on and I did not know that. I very proudly pulled out my drawings of the SAY, a feminine hygiene device, to show, thinking that seeing new innovations would be old hat to her. She displayed a priceless face of shock, then regained here composure instantly. Dr. Dunn won my respect and confidence at that very instant by the way he handled the embarrassing situation. He searched his vocabulary and found just the right words to dispell any feelings of discomfort on either her part or mine.

He very professionally got right back on track to a routine interview. He was very impressed at the marketability of my product and made many helpful suggestions as to steps to be taken to locate different high-tech materials needed to get a working prototype built. We also discussed the seminar which had been held in Bay St.

Louis. Dr. Dunn informed me of an Invention Commercialization seminar that the NLU SBDC was planning for December. Before the seminar, I found out that I could get my invention evaluated by the LSU Innovation Center at a nominal cost. Because my application had to be in to LSU before the seminar, I was unable to attend the seminar. I have attached a copy of the LSU report for information. In addition, Dr. Dunn offered assistance with starting a North Louisiana chapter of LAIT by providing mailing assistance and speakers for programs.

I was having to drive to Baton Rouge (200 miles) once each month for LAIT meetings on the LSU campus. While many good things were happening for our membership, we found a wealth of inventive talent throughout the state lying dormant and wasting due to a lack of funds and resources. I was asked to contact Dr. Dunn in March, 1984, to see if the NLU SBDC would help us form a North Louisiana chapter of LAIT. The center responded enthusiastically. I furnished Miss. Wyatt with a partial list of prospective members found at the LSU Patent Depository Library. She added other names of their contacts.

Dr. Dunn furnished labor and materials for mailouts announcing an organizational meeting. Ruston was chosen for that meeting because of its cental location. We had LAIT State President, Bill Girior, along with Regis Allison from the Louisiana Department of Commerce and Industry at that meeting. Dr. Dunn brought a large group of people from the Monroe area to the meeting. Mr. John Baker the new State Director of LSBDC and Dr. F. D. Wadsworth, a research chemist at Columbia Carbon in Swartz, Louisiana, spoke to the group.

As a result of the assistance I have received, I was recently asked by national and international plumbing manufacturing firms to present my invention to them for licensing consideration. I called Dr. Dunn on short notice for help with my presentation. He came to my home on a Saturday afternoon. I felt like I had a shot of B-12 when he left.

With the coaching in negotiating he had given me and the university study I had with me, I cannot tell you how much confidence I felt. I was well received by the manufacturers as a result. Negotiations are now ongoing and a large retail firm has indicated that they will put my invention on their shelves when I can get it produced.

There is no telling how many inventions have never made it to the marketplace because the inventor, like me, did not know where to turn to for help. The SBDC is that source of help.

Remember every thing that is was once a thought. Let's think of a way to keep the SBDC and other management assistance programs of the SBA which aid inventors and other potential and existing business people in creating and saving jobs so vital to the economic health of our nation!

Mr. HAYES. Mr. Smith.

TESTIMONY OF CHARLES M. SMITH, COMPUTER SYSTEMS & CONSULTANTS, INC.

Mr. SMITH. Good morning, Mr. Chairman, Chairman Mitchell, and an old friend of mine, Congresswoman Boggs.

Mrs. BOGGS. We are from the same hometown.

Mr. SMITH. Thank you, Mrs. Boggs. I am here this morning at the request of the Small Business Development Center at LSU, as being the recipient of some very factual and informative information on the development of a company I am associated with. I have submitted my prepared statement for the record.

In listening to the number of attendees that were here this morning, and the information I felt that was presented to you gentlemen and ladies, I felt that I would like to digress somewhat and tell you just a little of the history that I have, which goes back into the early fifties with the Small Business Administration.

I was a businessman in the central part of Louisiana, and in the early 1950's, God unwilling, the northern Yankees sent us three terrible hurricanes, and I can assure you that my accounts receivable were my assets, and for several years there, I floundered. I was in the construction business and had some retail stores and had about 125 people working for me.

And of course, small business came to my rescue, and I have since repaid them.

After the experiences that I had as a small businessman in a rural area, I joined the administration of Gov. John McKeithen in a revitalization of commerce and industry in the State of Louisiana, looking for new and old industrial clients to come here and expand.

I served as the executive director of Commerce and Industry, both under Governor McKeithen and Governor Edwards, and my responsibility was to get industry, and as much industry as we possibly could, to come and locate here in Louisiana.

As the director, we looked for all the different methods and means and connivances, whatever, to lure and establish businesses here in Louisiana. The Small Business Administration was probably one of the best sources of information, finance, and development that we could put our hands on.

There were a number of other Federal agencies that we made good use of: The Economic Development Administration, the Office of State Technical Services. Over a period of years, I had an opportunity to appear before different congressional committees to offer testimony and evidence as to why these programs were good, for one reason or another, and primarily because of the development work that we did here in Louisiana.

And in my submission this morning, I feel very confident that we should come out ahead on the winning side, because in all the testimony I have given, we have always succeeded. I won't take full credit for that, because we have panelists that were here before me, and here today, and you are going to visit with others throughout the country.

I would like to suggest to Congressman Mitchell, maybe your staff should get in touch with, if they have not already, the National Association of Development Agencies. This is the professional organization that each member of each State in charge of industrial development belongs to. I think that you can go into the great State of California, where the gentleman that lives on Pennsylvania Avenue is from, and probably find some classic examples of the development of California through the Small Business Administration, as well as some of these other States.

I thank you for the time. I appreciate being here. It has been my pleasure to appear before your committee.

[Mr. Smith's prepared statement follows:]

PREPARED STATEMENT OF CHARLES M. SMITH, COMPUTER SYSTEMS & CONSULTANTS, INC.

My name is Charles Smith, representing Computer Systems and Consultants, Inc., 8212 Kelwood Avenue, Baton Rouge, LA.

Computer Systems and Consultants, Inc. is less than two (2) years old, but the principals have a combined total of some sixty (60) years experience in business and computer systems development. Because of the in-house capability of the principals involved, it was determined that we should establish the firm as a "turn key computer system company." The services provided by Computer Systems and Consultants, Inc. entail: the determining of the customer's needs or problems; assembling, modifying or developing software solutions; acquiring and installing the necessary hardware for the completion of the system; and training the customer employees to the degree of efficiency required; and then maintaining both the software and hardware system.

Computer Systems and Consultants has targeted three major areas for turn key systems. These areas included medical and health care, legal profession, and parish and municipal governments.

A preliminary market study indicated that the hospitals of 125 beds or less was a market that could be developed. There are in excess of 4,000 of these types of hospitals in the United States and the economics for these smaller, but very necessary hospitals to our total health care system, does not and will not justify expenditures of over $150,000 for a computer system. With the advent of so very many government rules and regulations of Medicare-Medicaid, a computer is a must, even for our smaller not for profit hospitals.

To assure that the firm was in a position to take advantage of this opportunity we felt that some type of professional assistance, advice, and counseling should be utilized to assist us in completing our overall business development plan. We were also interested in pursuing financing for the company to accommodate our anticipated growth and were looking for assistance in the development of a general commercial loan package.

Our first call was made to the Louisiana Department of Commerce and Industry, New Business Development Office. It was then suggested that we contact Mr. Charles Holbrook, Director of the LSU Small Business Development Center.

During our initial meeting with Mr. Holbrook a thorough discussion of our needs, goals, and requirements ensued and Mr. Bruce Miller of the SBDC staff was assigned. Mr. Miller had the training and expertise, not only in computer systems, but also in finance to effectively counsel and advise our firm. We later learned that one of Mr. Holbrook's responsibilities was to assign counselors with the expertise that would best suit the needs of a client whether that expertise were readily available on the SBDC staff or within the University as a whole.

In passing, and for your information, the completion of our total business plan was absolutely essential within a sixty to ninety day period. Our first hospital system will be installed during the middle of April. Immediately thereafter we expect to very vigorously implement our marketing strategy as developed. In other words, we plan to go out and sell these systems and not just here in Louisiana. The other two target areas mentioned are progressing at a planned pace and we plan to expand them shortly.

The Louisiana State University Small Business Development Center provided Computer Systems and Consultants, Inc. complete financial projections based upon information provided by the firm. Additionally, the SBDC provided a guideline for the presentation of the balance of the business plan and critiqued and guided the development of the plan. The results of this plan have been:

1. Satisfactory arrangements have been made for a line of credit. After the presentation of the business plan the banker stated that he was impressed with the quality of the loan package as prepared.

2. The plan has developed a long-term action plan and the firm will continue to use these techniques for future planning. At the present time we have five-year projections and it is our intent to continually update this plan.

Computer Systems and Consultants, Inc. feel very strongly concerning the support that the Small Business Administration has given the LSU Small Business Development Center. We also realize that the Congress, at the present time, is considering the abolition of the Small Business Administration as one of the many economy moves. I would suggest that your Subcommittee continue funding the Small Business Development Centers at our Colleges and Universities to take advantage of their wealth of expertise that could be utilized in aiding the development of our small businesses and assist in the future economic and industrial development of our country.

Computer Systems and Consultants, Inc. would like to recommend to your Subcommittee, Mr. Chairman, that funding be continued to aid the development of small businesses and their future growth, through our colleges and Universities.

The small businesses that have been developed are one of our most important and cherished assets that have made America great.

Thank you for your time and consideration

Mr. HAYES. Thank you.

Mr. Morel.

TESTIMONY OF ROBERT C. MOREL, EXECUTIVE VICE PRESIDENT, ADVANCE PAPER CO., INC.

Mr. MOREL. My name is Bob Morel and I am the executive vice president of Advance Paper Co., Inc., a wholesale distributor of industrial paper products and sanitary maintenance supplies. Advance Paper Co. has been a successful family-owned and operated independent paper and janitorial house serving the greater New Orleans area for over 30 years. We operate a fleet of 7 delivery vehicles and through our payroll directly contribute to the support of over 50 families.

Over the last 2 years, major trends have started to affect the profitability and very existence of the independent paper houses. Large national chain operated food wholesalers began carrying many products that were once only stocked by the paper house. Because of their large buying power, it was becoming more difficult to compete for the business we once serviced. Another major market change to affect us greatly was the decline of oil prices. When prices dropped, oil drilling and exploration came to a halt, hundreds of oil field-related industries that we once serviced curtailed their purchases or went out of business completely. The Port of New Orleans was another blow to our business. At one time, hundreds of men manually stacked, hauled, and stored cargo. Today, the cargo that passes through the port is containerized, so fewer people are needed, and thus, fewer supplies to service these people are needed.

It was because of these trends that we knew that we needed assistance. If we were to stay in business, we knew we had to change with the markets. For the past 30 years, our expertise has been sales. We knew how to make a professional sales presentation, how to demonstrate our products, and how to ask for the order. What we lacked was the expertise in marketing and finance. Terms like quick ratio, current ratio and asset management were foreign to us.

It was at this point we contacted the University of New Orleans, who put us in touch with Mr. Mike Cusack with the Small Business Development Center. Our first meeting was in the summer of 1984. We explained our concerns to Mike and told him that we were not looking for quick fixes, but for guidance, someone to explain to us how to do the jobs that the large companies can do and were not in a position to do it.

We were not in a position to hire a finance manager or someone strictly for marketing, and we had to learn how to do these things ourselves. Mike suggested a program using graduate students in business and finance who would do a business analysis of Advance Paper as part of their graduate studies. We agreed. In the fall of 1984, we were contacted by Mike Cusack. He set up an appointment between Dr. Ken Lacho of UNO's business department, John Bauer, the president of Advance Paper Co., and myself. Dr. Lacho assigned a team of three students to research the operation of Advance Paper and make recommendations that they feel were needed. These students made numerous visits to our company and had many telephone conversations with us during their information gathering portion of the study.

We were not sitting back waiting for someone to run our company for us. As we made changes, we would bring these changes and suggestions to the student team, and to have them into our port, to tell us, did they feel we were on the right track, are these the true business decisions that we should be making?

One of the real benefits we saw was not just the benefit to us, but the benefits that the students got. They told us how important it was working with a real situation, rather than just a textbook.

They said it gave a lot more insight into what they were trying to do.

At the end of the semester, the team presented us with a 30-page detailed report containing their findings and recommendations. How beneficial is a report like this to a company like Advance Paper? As beneficial as we want to make it. It was not a report prepared by an experienced professional research team, and its finds had to be looked at very carefully. It did, however, present a new viewpoint on how to operate our company. It gave some good basic business practices, such as a better system of inventory management, which we have already implemented.

We wonder now why it took so long to do it, but we did not have the expertise in that. That basically handled the finance end of our business. We are not getting together again with the center to increase sales, help us now to understand markets and do a market survey, and they explained to us the importance of doing it properly, because of asking the wrong questions or interpretating the data wrong, you may make wrong decisions which would jeopardize us.

We believe the benefit that we have gotten so far has been very valuable to us. We would like to continue to take advantage of it. We want someone to show us the direction, and let us go in and do the things we need to do. We hope that this type of service will continue to be offered to us in the future.

Mr. HAYES. Thank you.

Mr. Horton.

Mr. MITCHELL. I have known Mr. Horton for a long, long time. When I first came into the Congress and decided to address this area, that was some years ago, my hair was black and my face was unlined, but you have been in the trenches since 1971, 1972. Good to see you again, Mr. Horton.

TESTIMONY OF CLARENCE D. HORTON, ANVIL ENTERPRISES, INC.

Mr. HORTON. Good afternoon, Congressman, Mitchell, glad to see you, and Congressman Hayes and Mrs. Boggs, it is always a pleasure and an honor to come before your committee.

I have a prepared statement, but I would like to give you some highlights. Again, I come before this committee asking for support for minority transports. The last time we met, we talked about minority truckers, and the Interstate Commerce Commission since that time, a lot of those problems have been cleared up.

We are now moving into a new stage of development. The stages of development are now in progress with the assistance of New Orleans Small Business Development Center at the university. We have done a tremendous amount of research since 1984, looking where we were, and where we should be going.

Through that research and development, we have come to the conclusion in order to bring minority transporters, not truckers, into the mainstream of the economies, which is the second largest industry in the world, which is transportation, we have put together a business plan and outlined a structure and strategy to make this happen, and what our goal should be is to make these minority transporters more viable and successful.

We feel the only way to do it is through a national organization. This organization would serve as the parent for those minority carriers that we were successful in getting authority for from 1972 up through 1980 and beyond, and at that time, we were successful in putting into business 2,500 minority transporters.

And when I say minority transporters, I mean those that were not majority transporters, including whites.

Since that time, our record of success has been very, very bad, mainly because of lack of management, lack of marketing skills, lack of money, and lack of understanding the industry.

Since I have been working with the University of New Orleans, which started in October 1984, prior to that, we had had very little success in putting this program together. What we discovered has been amazing.

We have discovered some startling things about the transportation industry and the trucking business, which is all but obsolete.

Any carrier that is in the business today and not looking forward to becoming a total transportation company, he is out of business, and we would like to save a lot of these companies that have struggled so hard, and a lot of people have spent money helping to get these companies going, including the SBA, major corporations, including a lot of business development companies.

We think now that we have a plan.

[Mr. Horton's prepared statement follows:]

PREPARED STATEMENT OF CLARENCE D. HORTON, ANVIL ENTERPRISES, INC.

Mr. Chairman, my name is Clarence D. Horton. I am a client of the Small Business Development Center of the University of New Orleans. They are assisting me and my associates in the development, research, and the composition of a proposal to secure the financing for the establishment of a national minority transportation company.

Anvil Enterprises, Inc. will be a minority owned and controlled transportation company of national coverage, which will create five thousand new jobs in five years and will serve as a development model for other minority owned companies. The company's services will work in cooperation with other minority and small transporters to create a united network which will allow all members to compete more effectively in the industry.

The University of New Orleans Small Business Development Center has assisted me with the development of a business plan for the formation of Anvil Enterprises, Inc. The work began in October 1984 and is still in progress. The primary focus at this point is to secure start-up funding and to pursue the possibility of taking over the management of an existing trucking operation and convert it to the Anvil structure. We expect this company to be in operation within the next six months.

I have found services of the Small Business Development Center most helpful in the areas of management marketing, finanical projections, and financial planning.

Mr. MITCHELL. I hate to do this, but I have to interrupt you. These hearings were essentially concerned with the proposal to dismantle the SBA. I am well aware of your plan, and I pledge myself to work with you, but I really don't think that this is the propitious time to address the subject in an open forum, because we are dealing with an action proposed by the administration.

You are aware of my commitment, but I honestly think this is not particularly germane to the purpose of the hearing today. Even though you are my friend, I will regretfully cut you off.

Mr. HORTON. I was just trying to take advantage of an opportunity. I apologize. I got caught.

Mr. MITCHELL. Thank you.

Mr. HAYES. I would just like to raise one question.

Mr. Baker, you said you worked with 11 different universities?

Mr. BAKER. Yes, sir.

Mr. HAYES. If SBA goes out of business, do you think that your center could exist without SBA and continue to provide the valuable service as described by your clients who have testified?

Mr. BAKER. No, sir; I do not, and I believe that the universities would want it to exist, but we are having the same problems in Louisiana as elsewhere—the universities are contributing actual dollars and people's time that would otherwise be in the classroom, to make this program work.

They want to serve their constituency just as I would want to keep it going, were the SBA to go away, but I do not believe that the support—that they are able to do things they would want to do would continue, should the agency go away.

We need the Small Business Administration.

Mr. HAYES. Have the 11 universities which participate in the center operation this year, made their position known to both Houses of the Congress?

Mr. BAKER. Yes, sir; they have, and they are continuing to do so. I have written just this week to remind them that this is not over.

Mr. HAYES. OK. Mr. Mitchell.

Mr. MITCHELL. Thank you, Mr. Chairman.

We had a hearing yesterday, and we heard from the Small Business Development Centers. Next week, we will be in Chicago. This is what you call taking your case out to the people, and the following week, on Monday, we will be in Philadelphia. We will be exhausted, but we will have done what we think is the right thing.

Based on the hearings yesterday and the testimony today, I am going to go way out on a limb and say that I think we ought to be able to safeguard the SBDC Program. That is going out on that limb and with one caveat, and that is that all of the people, and all of the institutions across the country involved in this effort will continue to enlighten the Members of the House and Senate on the strategic importance of this program.

The combination of what we have heard in the testimony, the commitment that most of the members of the House Small Business Committee have for the program, coupled with that intensive effort, causes me to go way out on that limb. Don't leave me out there by myself, don't do that.

I think it looks fairly good for this program. It does not look so good for other components of the SBA Program. Thank you for your testimony.

Mr. HAYES. Thank you, we will excuse you.

The committee will be in recess until 2.

[Whereupon, at 12:50 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

Mr. HAYES. The hearing will please be in order.

I would like to have come before us the following persons on panel six, who will deal with the questions of surety bond guarantees: Mr. Pilet, Mr. Keeler, and Mr. Cure.

TESTIMONY OF A.J. PILET, PRESIDENT, SURETY UNDERWRITERS, INC.

Mr. PILET. Chairman Mitchell and Mr. Hayes, I want to thank you for the opportunity of allowing me to express my views concerning the programs of the Small Business Administration and its surety bond Guarantee Program.

The Congressional Record of Tuesday, April 20, 1976, contained a statement of policy for the SBA that was related to the SBG Program. That statement read:

> It is the intent of Congress to strengthen the free enterprise system by assisting qualified small business concerns to obtain certain bid, payment or performance bonds that are otherwise not obtainable.

My objective is to present to you evidence, tangible evidence, that will confirm that the intent of Congress has indeed been realized.

What better evidence can I offer to you than the success stories that have developed out of the Small Business Bond Guarantee Program over the last 13 or 14 years? I have been asked to present 2 such stories, but if I were to present 22 or 2,200, the story would all be the same. Only the names and the faces would be different.

Mr. Hayes, at this time would you prefer that I introduce the two gentlemen that I have with me?

Mr. HAYES. Why don't you complete your statement, and then I will recognize the two gentlemen following your statement.

Mr. PILET. Thank you.

My experience with the SBA dates back to the inception of the SBG Program. During those years I have worked closely with the SBA in assisting various groups who were interested in self-employment. There were those men and women who felt they were ready to make it on their own, because they had served their apprenticeship with former employers. There was another group of business people already in construction but in a segment of the industry that was not acceptable by the major sureties for contract bonds. The next group was an unfortunate group who had experienced reverses and who were looking for a new beginning. And then there were the victims of an economic downslide who were asking only for short-term help.

To fully appreciate the economic impact of the Small Business Bond Guarantee Program, one need only glance at the daily Journal of Commerce and note the results of the projects that were bid and won by contractors whose success began with the Small Business Administration. To fully understand the message that is contained in the journal, one need to go back to a period before the birth of the SBG Program. In those days, projects were bid by four, and sometimes five, of the most successful contractors. They were the giants. They were the family institutions that were perhaps 20, 30, or 40 years old.

With the advent of the SBG Program, things changed. Men, such as you see on my left and on my right, emerged as successful entities as a result of their seeking assistance through the SBA. Something significant happened. What formerly would have been four bidders was now increased to six. And as others emerged out of the SBG Program, the six increased to eight. Now we had meaningful competition, and competition is the key to a healthy free enterprise system. For those contractors who felt that they had a lock on the projects that were being bid, the unexpected for them became the expected. The $100,000 project was not going to be won for $115,000. And the $215,000 project was not going to go for $275,000. And the $1 million public project was not going to cost the American taxpayers $1.5 million.

Things did indeed change, because there was a new kid on the block, the SBG Program, with its offer of an opportunity for all of those who felt they wanted a piece of the American dream. Well, if the SBG Program was important at its inception, with its intent to advance the free economic system of our country, then now continuing that program is not only important, it is critical. Today, insurance companies are restricting their operations in all areas. They will tell you they are being more selective. Now, I really don't know what that means. I can't tell the difference between the two because the end result is surely the same.

They are not doing much for me and for my contractors. That is for sure.

At the same time, the AM Best Co., and this is the Dunn & Bradstreet of the fire and casualty companies, are downrating the major insurance entities. Yet, while these two things are happening, public agencies and private owners are stipulating top-rated companies. For the contractors who find themselves in this Catch 22 situation, the SBG Program is the light at the end of the tunnel. And, sir, I offer you that it is the only light. If we eliminate the SBA Program and the SBG Program, we move right back to square 1. Is that what we want?

Let me introduce to you now what I prefer to call my success stories. On my right is Mr. Vernes Keeler of V. Keeler & Co., Inc. Vernes came to us sometime in 1981. The smallest bond we wrote for Vernes was $5,000. The largest was $112,982. Vernes is a general contractor specializing in levee work, dirt work, and concrete. He was graduated from the SBG Program sometime around the middle of 1982.

At this point I want to introduce to you Vernes Keeler, and let's let him tell his story.

Mr. HAYES. Mr. Keeler.

TESTIMONY OF VERNES KEELER, PRESIDENT, V. KEELER & CO., INC.

Mr. KEELER. Thank you, Mr. Pilet, Mr. Hayes. With the grace of God, I would like to first thank you, Congressman Mitchell, and Congressman Hayes, and also your staff for the opportunity and the invitation to come before you today to tell my story of my past experience in SBA Guarantee Program.

We have come a long way, and I don't necessarily literally say that. I have started my business from the very bottom, one piece of equipment, working out of my living room and with the help of my wife I was able to get to the position that I am today.

Mr. MITCHELL. What year did you get started?

Mr. KEELER. We started in business in 1978. However, looking back on all of my past experience and all of the past obstacles that I had to overcome, obviously, bonding was highly ranked in those obstacles.

It wasn't long before I realized that you just couldn't walk into your insurance agent's office and walk out within a matter of hours with a performance bond. It took me a couple of visits over a year's period to just find out what my financial picture must look like in order for me to be bonded. It is only because the Small Business Administration was guaranteeing the insurance company a percentage of any losses that they have even considered my package.

We did not give up. We got our first performance bond 7 years ago for less than $100,000. Presently, we are negotiating a bonding line with a standard company for a $2 to $3 million work program.

Once again the Small Business Administration allowed our firm to be competitive, to participate in the construction industry. This enhanced the rapid growth and at a solid pace, most of all contributing to the economic growth of our country through training and hiring employees, which enables them to be better providers for their family, also a strengthening of the tax base for our country.

Why am I concerned for the program? I have graduated. I am concerned because I know what it is to be locked out and can't get in.

Unless you want to see the rich get richer and the poor get poorer, any person with a concept and willing to utilize all of his resources to participate in the construction industry, that person faces a tougher obstacle than I faced 7 ago.

I would like for you to keep the Small Business Administration Bond Guarantee Program so that everyone would have a chance, rich or poor, whether he is black or white.

I would like to thank you once again for this opportunity to come before you today. Please accept these past, present, and future thoughts as the soul opinion of V. Keeler & Co., Inc.

Mr. HAYES. Thank you.

Mr. PILET. As an afterthought, during the time we had Vernes in the SBG Program, we made 22 submissions to the Dallas regional office.

My next success story is Mr. Andrew Cure, president and general manager of Hydro-Air, Inc. Andrew came to us sometime in 1979. The smallest job we bonded for Andrew was approximately $9,000, and the largest approximated $175,000.

Andrew graduated in December 1982. He is in industrial construction specializing in water projects and sewage treatment plants. During the time we had Andrew in the program, we made 24 submissions to the Dallas regional office.

Andrew Cure.

Mr. **Hayes**. Mr. Cure.

TESTIMONY OF ANDREW J. CURE, PRESIDENT, HYDRO-AIR, INC.

Mr. **Cure**. Thank you, Mr. Hayes, Mr. Mitchell. I would like to thank you for this opportunity to come forward and cast some light on what I feel would be beneficial to the SBA.

First of all, it seems like in the construction industry for years and years the rich kept getting richer. It wasn't until the inception of the SBA that everybody had an equal opportunity to make an attempt at securing construction projects which the time before that, all bonded jobs, they were all bonded and you had to have huge assets to procure bonding, which locked everybody else up. I feel that you all afford an opportunity and not a gift in this industry.

We are not asking for something to be given to us and not being repaid. All we are looking for is the opportunity to be competitive with everybody else. As long as we continue that basis of fairness, I feel like there is still some justice here today. Thank you.

[Mr. Cure's prepared statement follows:]

Prepared Statement of Andrew J. Cure, President, Hydro-Air, Inc.

I wish to emphatically state to this honorable committee of the benefits that I derived from the Small Business Administration Surety Guarantee Program.

In 1977 I started my own construction company and in dire need of bid and performance bonds to bid public works, State and Federal Projects. In the construction business a bond line of credit is of the utmost importance and can be equated to a life line because without it, chances for success are practically nil.

After failing to obtain bonding from the normal source, I applied to the Small Business Administration for surety bonding and was ultimately granted a bond line of credit.

With this line of credit I was able to bid work and on many occasions was low bidder and awarded the contract. This program enabled me to grow and to succeed in the construction industry.

After two years in the Small Business Administration Program I was able to graduate into the normal markets after obtaining a viable financial base. I have since been receiving my bonds from this source.

Giving the small construction contractors this great opportunity to bid work substantially increased the competition against the "big boys" of the industry, thus realizing tremendous savings to private industry, city, state and Federal Governments.

Additionally, a very important by-product of bonding the small contractor was the creation of additional jobs in the work force. We at Hydro-Air, Inc. are maintaining a staff of 20–30 workers and have been averaging this number for the past five years.

There is no doubt in my mind that the Surety Bond Program as established by the Small Business Administration through the beneficient votes of honorable members of both houses of Congress constituted a sizable increase in this country's Gross National Product.

Lastly, this arrangement was not a total give-a-way as most social programs are. In 1971 when this plan became effective in Louisiana, the contractor making application to the Small Business Administration for surety guarantee was required to pay a $10.00 application fee for bid and performance bonds plus two tenths of 1% processing fee for performance bonds. In later years the $10.00 application fee was discontinued, but the processing fee for performance bonds was increased to ½% of the contract value.

I offer the above rhetoric in the light that the charges required for participation conferred a dignified quality to the program as versus a totally free service. Such charges, I would assume, were used by the Government to defray losses and loss expense incurred by defaulting contractors.

In summation it is my earnest opinion that this program was the epitome of consummate perfection.

Mr. HAYES. Thank you very much.

I would like to just make a statement and ask Mr. Pilet a question.

You indicate in your statement that without the surety bond program, competition to some extent would be locked out and would cost the taxpayers additional money, particularly on miniprojects in the construction field. You said when you lock out the small contractors, the big ones just get bigger. My question to you is: Can we afford to let this happen?

In your opinion, what would happen to the smaller person in the contracting business if SBA failed with its Surety Bonding Program?

Mr. PILET. Well, every day I find myself in the presence of the surety managers of the major companies. The other day I spoke to one because I had an applicant, I had a contract I wanted to offer, that I felt quite confident with, and I was told that this major company is not going to look at any additional business unless the contractor has been in business 3 years, has $100,000 of net working capital, and $250,000 of net worth.

Now, logically, my question is, fine, Mr. Manager, but how do we get there? And if there is no SBA that we can use as a vehicle to climb to that position, then you tell me, how do you get there?

Well, he is not going to answer that. It is not his problem. They are going to get paid every Friday whether they write my bonds or not.

There is another instance in which I found myself in the presence of a manager, and I said: "My goodness gracious, you are being so restrictive." He said: "No, I am being more selective."

I mention that in my presentation. What is the difference? The end result is the same. What disturbs me and has for many, many years is why the major sureties have not picked up this program and participated.

I know time is limited, and I will stop anytime you tell me to, but over the years I found that the major companies fell into three categories. The first category went on a philosophy that if a contractor can't stand on his own two feet, they don't want him under any conditions, with or without the SBA guarantee.

The second philosophy was, if the Government is involved, there is just too much detail and redtape and lost time and lost motion and expense. And so we don't want to participate in the program.

The third group said: "Hey, we are not going to decentralize this program. On a local basis we will write a $50 million bond but give us a $5,000 SBA application and it has to go to Baltimore."

Mr. HAYES. To where?

Mr. PILET. Baltimore, the main office. They refuse to decentralize.

If we eliminate the SBA Program, we really go backward. We do indeed go back to square 1.

I mention what is happening to the major companies. I read recently where the losses they suffered in 1984 were equal to the losses they had in the past 25 years. The problem here is AM Best doesn't rate a major company on their experiences in the field of the casualty or surety. They rate those companies for their overall performance. And, Mr. Hayes, I recently lost an account because I had this contractor with an A-plus company, which is the highest rated company, but when Best introduced this publication, the company was down rated to B-plus.

The Jefferson Parish school board has guidelines which now require an A company. I lost the bond. I lost the contract.

OK, he was able to go to another agent who had an A or an A-plus facility, but what happens when the 1985 best book is introduced? How many more are going to be downgraded? Then we start the process all over again.

Mr. HAYES. That is what SBA tells me.

Mr. PILET. This is found in the journal.

Let me take just 1 second. I will try to talk very fast.

The reason I like this idea, it involves one or two of the success stories—I can't find it. We have a project advertised in the journal. We have the results of that project. There were only three bidders, two major construction companies. The low bidder was something like $28,000. The second bidder was $38,000.

Now, I am going to tell you that I have been around long enough in this bidding process to know that the low bidder may have known very close to what that next bidder was going to bid. I have been at this thing for a long time. I am no fool.

You know what spoiled the whole thing, Andrew Cure appeared on the spot, and he insulated those two bids. Instead of the low bidder getting this job for maybe $35,000, or $36,000, or $37,000 and still being under the $38,000 of the other bidder, Andrew Cure was second bidder for just $1,600 above the lowest bidder. Those are the stories that you find here.

You talk about competition, sir. In another issue of this journal, one of the biggest giants we have in this area, he has to have a bonding capacity in the hundreds of millions of dollars. Yet, this journal reports that he bid an $18,000 job. Why? Because of the Vern Keelers.

Mr. HAYES. Thank you very much. You gave me a liberty that I am going to have to utilize. You told me when I had to, to let you know——

Mr. PILET. Thank you, I have talked too much.

Mr. HAYES. Congressman Mitchell.

Mr. MITCHELL. There is a full degree of support in the House of Representatives, I think, for the Small Business Administration. There are perhaps 15 or 18 members who carry the burden of fighting for these programs. We are the vanguard. I am going to be quite honest with you. It is frustrating. You feel discouraged on occasion. But when you come out and hear from you three gentlemen, that gives us the shot in the arm that we need.

I personally—and I know Charlie is, too—am grateful. You can't stand there day after day, week and week, banging against the opposition and not get a little frustrated.

Mr. Keeler, in 1978 your company was formed. How many employees did you have?

Mr. KEELER. Two. Myself and my wife.

Mr. MITCHELL. Then you finally got into the surety bond program in what year?

Mr. KEELER. Between 1982 and 1983. The payroll now averages around 20. Depending on the workload we may get as high as 30.

Mr. MITCHELL. Mr. Cure, you started your business in 1977?

Mr. CURE. Correct.

Mr. MITCHELL. With how many employees?

Mr. CURE. One.

Mr. MITCHELL. You finally got your surety bond participation in what year?

Mr. CURE. We started in 1979, graduated in December 1982.

Mr. MITCHELL. By 1982, how many employees did you have?

Mr. CURE. Forty-three employees in 1982.

Mr. MITCHELL. This could not have been accomplished without the surety bond program?

Mr. CURE. Without a doubt, it couldn't.

Mr. MITCHELL. All right, both of you have graduated. Are you having difficulty getting bonding now?

Mr. CURE. None whatsoever.

Mr. KEELER. No, not at all.

Mr. MITCHELL. Thank you from the bottom of my heart, all three of you. It encourages us.

Mr. HAYES. Thank you again. Could you actually survive in the construction business without the SBA surety bond protection?

Mr. PILET. I can assure you I would not have.

Mr. KEELER. I wouldn't have had a need to survive, because I wouldn't have even got in.

Mr. HAYES. Thank you very much.

Our next panel having to do with the same issue is panel No 7. Mr. Bedford, please come forward. Mr. Norman and Mr. Williams, please come forward.

TESTIMONY OF MOUNTIE BEDFORD, PRESIDENT, MB UNDERWRITERS, INC.

Mr. BEDFORD. Thank you very much, Mr. Hayes, Chairman Mitchell.

Like Mr. Pilet, I am a managing general agent involved in writing this program. I have been involved in it since its inception, going back to 1971. In fact, some of the forms the Small Business Administration uses in Washington are some forms that we developed out in the field.

Today I want to give my views on the importance of retaining this valuable and successful program. It is not only important to the contractor participants, but also to the Federal, State, and local governments. The ability of the small contractor to compete on Government contracts has saved millions in the public sector. This is because their overhead is not as great and the savings is then passed along.

When the program began in 1971, it was because of the Affirmative Action Program requiring minority participation on contracts of $200,000 or more. The general contractors were eager to comply but when it came time for those small, medium-size contractors, be they minority or not, there just wasn't any bonding available to them.

As I recall, the program was called the Minority Contractors Assistance Program. It quickly became available to every small contractor that needed the program.

I remember attending SBA seminars when the standard sureties would sit in the back and snicker when it was suggested that they might want to participate in this program, either that or help the small contractor through providing some bonding. It just was not for them. They were not interested in writing bonds for minority contractors back in 1971, and the same holds true today. The number of small contractors needing bonding assistance has increased because the standard surety has turned the small ones out on the street. It costs the same to underwrite a small account as it does a larger one. They can develop more insurance premiums with a larger contractor.

The elimination of the surety bond guarantee program will play havoc with many affirmative action programs. I am not sure that I heard that discussed today. But probably the most important would be the 8(a) Setaside Program, which has been in existence for many, many years.

Without the program, those contractors who are participating in the 8(a) Setaside Program, such as Mr. Williams, they would not be able to secure the bonding or be able to participate in that very valuable program.

I have attached a copy of my letter which I sent to each member of the Senate and House Committees on Small Business. It clearly states the value of the programs in dollars and cents. I would like to draw on that again to point out that the program is a success in every way.

On page 2 of that particular letter, it points out that few Government assistance programs have developed revenues that exceed administrative costs by over $55 million. The surety bond guarantee program has done this. The dollar outlay of this program since inception has averaged between $15 and $16 million annually. The fact is, there is no net cost to the Federal Government or taxpayer.

Government studies have shown that since inception the net savings to the Government and taxpayers is in excess of $311 million. I show those figures in that letter. The Surety Bond Guarantee Program has provided the Government and taxpayer with a net financial benefit annually of $23 million. These figures do not include additional savings to State, county, and city governments when their construction contracts are put out for competitive bids.

We need to ask ourselves where will the small business contractor go for his bonding should the program be eliminated. What about the loan secured for equipment purchases and working capital? It may even be a SBA backed loan. Should the contractor be penalized for having depended on a program that from all indications was working? And how will he be able to retire those loans?

I can tell you from past experience that the small business contractor will be excluded from bidding on Federal Government contracts. He will not be able to meet the very stringent underwriting rules set forth by the standard bonding markets.

Because of their high overhead, the larger contractors can't compete on the smaller Government contracts. The cost of these contracts will increase, if the small contractors can no longer bid on them. They range from $25,000 to $1 million.

Again, how will the various governmental agencies comply with Federal rules requiring the participation of small business contractors in their contract lettings?

The answer to all of the above questions is to retain and strengthen those successful SBA programs such as the surety bond guarantee.

If the administration thinks the economy has turned and if the President truely believes that the small business is the backbone of the Nation, then the Small Business Administration will be saved.

[Mr. Bedford's prepared statement, with attachments, follows:]

TESTIMONY OF MOUNTIE BEDFORD, PRESIDENT, MB UNDERWRITERS, INC.

My name is Mountie Bedford. I am a general agent representing the Balboa Insurance Co., Inc.

We are a large writer of construction bonds indemnified under the Surety Bond Guarantee program.

I have been involved in this program since its inception and take great pride in having some of the forms I developed become standard within the SBG program.

Today I want to give you my views on the importance of retaining this valuable and successful program. It is not only important to the contractor participants, but also to the federal, state, and local governments. The ability of the small contractor to compete on government contracts has saved millions in the public sector. This is because their overhead is not as great and the savings is then passed along.

The SBG program came into being of the affirmative action requiring minority participation on contracts of $200,000 or more.

The standard sureties were not interested in writing bonds for minority contractors back in 1971 and the same holds true today. The number of small contractors needing bonding assistance has increased because the standard surety has turned the small ones out on the street. It costs the same to underwrite a small account as it does a larger one, and more insurance premium can be developed with the larger contractor.

The elimination of the Surety Bond Guarantee program will play havoc with many affirmative action programs. The most important of these would be the 8(a) set-aside. This program relies on the bonding assistance to its qualified participants. One of the speakers here today is involved in the 8(a) and will point out its importance.

I have attached a copy of my letter to each member of the Senate and House Committee on Small Business, and it clearly shows the value of this program in dollars and cents.

Any questions you might have concerning todays statement or the attached letter, I will be glad to answer at your convenience.

At this time I would like to introduce to the committee two gentlemen who own small business contracting firms. They both have had to use the Surety Bond Guarantee program in order to secure bonding.

Mr. Isaac Norman is from Mississippi and Mr. John Williams is from Louisiana.

I thank you for your invitation to appear before you and hope that with your help this well established and dependable program can be saved.

Phone 478-0400
(Area Code 904)

CONSTRUCTION BONDING
SPECIALISTS

MB Underwriters, Inc.
P.O. Box 15350
Pensacola, Florida 32504

February 8, 1985

Re: Possible elimination of the
Small Business Administration

My name is Mountie Bedford. I am president of M B Underwriters, Inc. , a general agency, representing the largest single writer of bonds for the small business contractor in the SBA Surety Bond Guarantee program.

I am writing this letter both as a concerned businessman and a taxpayer.

It is very disturbing to read and hear of the administrations attempt to eliminate, in total, the Small Business Administration. I hope this letter will help in your fight to save the agency.

There is no doubt that some programs within the SBA should be overhauled or eliminated, but it appears Mr. Stockman wants to throw out the baby with the bathwater.

It is obvious that he and his staff are not fully aware of the importance and success of many SBA programs. He probably doesn't care about the number of small business failures and the loss of tax revenue that will occur with the elimination of those programs.

I want to discuss a specific SBA program that is in danger of being eliminated. The Surety Bond Guarantee program began in 1971. It was needed because minority contractors were unable to secure bonding on federal contracts although being invited and encouraged to bid this work. The purpose was to help the contractor walk before he ran. In this manner he would eventually secure bonding in the standard market.

I suppose, in terms of length of involvment, I am considered the Old Pro of this program. I had the privilege of speaking before the Committee on Small Business, U. S. Senate on March 11, 1982.

Phone 478-0400
(Area Code 904)

CONSTRUCTION BONDING
SPECIALISTS

Underwriters, Inc.
P.O Box 15350
Pensacola, Florida 32504

continued...

The programs importance and success was read into the record and the only thing that has changed is the great increase in efficiency by the less than fifty (50) people that administer this program nationwide. I personally believe they should be commended for a job well done.

There are few government assistance programs that have developed revenues that exceed administrative costs by over fifty five million dollars. THE SURETY BOND GUARANTEE PROGRAM HAS DONE THIS..

The dollar outlay of this program since inception has averaged between fifteen and sixteen million annually. The fact is there is no net cost to the federal government/taxpayer.

Government studies have shown that since inception the net savings to the government and taxpayer is in excess of three hundred and eleven million dollars. The most recent figures are as follows:

July 1, 1971 through Oct. 1984

Number of contracts indemnified	164,395
Total dollar value of contracts indemnified	$12,732,988,527
Total dollar value of public sector contracts	$ 4,927,666,559
Savings to government/taxpayer due to competitive bidding @9.25%	$ X 9.25%
	$ 455,809,156
Income to government from surety and contractor fees	$ 65,121,835
Gross savings to government	$ 520,930,991
Net claims paid to date	$ 200,298,896
Net benefit exclusive of cost	$ 320,632,095
Cost of administration	$ 9,623,739
NET SAVINGS TO GOVERNMENT/TAXPAYER	$ 311,008,356

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SPECIALISTS

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Pensacola, Florida 32504

contined...

The figures show the Surety Bond Guarantee program has provided the government and taxpayer with a net financial benefit on an annual basis in excess of twenty three million dollars. It is important to note that these figures do not include additional savings to state, county, and city governments, when their construction contracts are put out for competitive bids.

Now, we need to ask ourselves, where will the small business contractor go for his bonding should this program be eliminated ?

What about the loans secured for equipment purchases and working capital ? It may even have been an SBA backed loan. Should the contractor be penalized for having depended on a program that from all indications was working ? How will he be able to retire those loans ?

I can tell you from past experience, that the small business contractor will be excluded from bidding on federal government contracts. He will not be able to meet the very stringent underwriting rules set forth by the standard bonding markets.

Because of their high overhead, the larger contractors can not compete with the small contractor on the smaller government contracts. The cost of these contracts will increase if the small contractors can no longer bid on them. These contracts range from twenty five (25) thousand to one million (1,000,000) dollars.

How will the various governmental agencies comply with federal laws requiring the participation of small business contractors in their contract lettings ? What about the women owned businesses ? How about the 8A set-aside program ? How will the bonding requirements be met ?

The answer to all the above questions is to retain and strengthen those successful SBA programs such as the Surety Bond Guarantee.

If the administration thinks the economy has turned and if the president truly believes that small business is the backbone of this nation, then the Small Business Administration will be saved.

Sincerely,

Mountie Bedford

Mr. **Bedford**. At this time I would like to introduce the two gentlemen who are sitting here with me. On my left is Mr. Norman, and like Mr. Pilet, the first time we talked to him about bonding, we were having trouble getting a $15,000 or $16,000 bond. The last bond that we have worked with him on that he was successful on is a $482,000 project over in Jacksonville, FL.

Mr. Williams works out of Shreveport and is very involved in that 8(a) Program. So, at this time I would like to introduce Mr. Norman.

TESTIMONY OF ISAAC NORMAN, PRESIDENT, ISAAC NORMAN CONSTRUCTION CO., INC.

Mr. **Norman**. My name is Isaac Norman. I own a small business firm in Biloxi, MS. I ran a small business as a subcontractor from 1968 to apparently about 1979. After 1979, there was a State law you had to be performing so much work in the general construction field before you could obtain a general contractor's license. So I decided to incorporate, but there was a problem: Would I be able to achieve bonding to do competitive bidding under Government contracts?

I incorporated in 1979, and I applied for my first bond, somewhere in the neighborhood of 1980 or 1981, which I received. It was a small bond, but it was a job.

Mr. **Hayes**. How small? Do you remember?

Mr. **Norman**. The project ranged somewhere in the neighborhood of, I think, $50,000. It was a competitive bid project and I had to leave Biloxi about 6 o'clock that morning to drive to Jackson to pick the bond up and get back to Keesler Air Force Base in time to be able to turn in a bid on the project at 2 p.m. I didn't have enough time. I was the low bidder, but by being late, I couldn't receive the project.

Since then, I have been able to get numerous bonds and employ numerous people, but our problem is, if this program is abolished, the people that are working under the Small Business Administration Program, which you know, can no longer survive. We did a project in North Carolina, a $10 million project which I had about $1.7 million of it, and at that time we employed approximately 25 or 30 people from 1981–82.

Since 1982 until today, we are showing that we have employed a minimum of 450 people, and on average, approximately about 140 a year, so if the surety bond program would be abolished, it would be impossible for me to operate. At the present time I have approximately $2 million worth of work. Projects now that which I am trying to receive bonding on, and if this surety program is stopped, I don't know how I would carry on. So what about the loans that we have outstanding? Loans that we have through the surety bond program with the Government, which the loans are secured by certain things like property, real estate, certificates. What would we do? Where would I be? Say I owe them $50,000 on a quarter of a million dollars worth of assets? What would they do? Come in and take the assets, everything I own, for $50,000?

At the time, we are paying our loan back to the Government with the going interest rate of today, so if this program is abolished, there is no way in the world that the small businessman can survive, period. You can't even buy material for your supplies because the first thing the supplier wants to know is, who is your bonding company?

Yesterday I had a supplier to return to me a set of shop drawings on a project which I did not give him the name of the bonding company. He doesn't want to sell to you. OK, how would I obtain bonding through a private bonding company?

Yes, you can obtain bonding through a private bonding company, if he is going to get 90 percent of your project. Where does that leave us at today? What are you telling me? Our President is denying the small businessman the right to make a living in his own country?

Every time we have a raise on taxes, I pay the same FICA, the Mississippi State employment tax. Every time the rate goes up, I pay the highest employment tax of any contractor in Mississippi. The rate is 5.04 percent, and that is what I pay. Large businesses do not pay that type of rate, so what do we do?

Mr. **Hayes**. We understand. Maybe together we can answer it.

[Mr. Norman's prepared statement and attachment follow:]

Prepared Statement of Isaac Norman, President, Isaac Norman Construction Co., Inc.

My name is Isaac Norman, I am the owner of a small construction company inc. by the name of Isaac Norman Construction Co., Inc. I incorporated in March 1979.

I was in business as a sub contractor doing work where I could get it. I could not do any competitive bid jobs because I couldn't get a bond.

I met with Mr. Robert Funchess to find out how I could become eligible to get bonds under the Security Program. Mr. Funchess gave me the paper work and application and also assisted me in getting my first bond under the program. I have done a number of projects since I have been able to receive bonding under the Program.

Because of being able to obtain bonds I am now able to make Construction loans or assignment of contract.

If this program is abolished, the small business will be completely stopped.

Note: This was the number of employees which we employed before I was able to obtain bonding under the security Program. (1979—6) (1980—9) (1981—17). This is the number of people we have employed since I have received bonding. (1982—30) (1983—117) (1984—218) (1985—55). From 1982 to 1985 Isaac Norman Construction Co., Inc. employed a minimum of 420 people who could have been in the unemployment line. This program must be kept in force because I cannot operate if it is abolished. I will be in the unemployment line along with everyone else. As a small business we average 140 jobs per year for any person looking for employment in the construction field. I can't understand how the economy would survive without this program.

Enclosed is a list of bonds we have received and projects we have done, which we could not have done if it had not been for the bonding.

Mar. 27, 1981—Bid bond: Construction of approximately 3,000 sq. ft. Veterans Administration, Gulfport, MS	$100,000.00
Sept. 20, 1984—Performance and payment bond: Insulation jackets on 1,325 domestic water heaters. Keesler Air Force Base, Biloxi, MS	36,881.36
May 21, 1984—Performance and payment bond: Install insulation in attics and ceilings. Veterans Administration, Gulfport, MS	50,671.68
June 27, 1984—Performance and payment bond: Interior maint., repair and renovation of building No. 7101. Keesler Air Force Base, Biloxi, MS	224,500.00
Sept. 21, 1984—Performance and payment bond: Upgrade Billeting Office Building No. 2101. Keesler Air Force Base, Biloxi, MS	190,000.00

Oct. 3, 1984—Performance and payment bond: Rehabilitation of Davis Bayou Comfort Station. Gulf Islands National Seashore, Ocean Springs, MS	$135,894.41
Feb. 19, 1985—Performance and payment bond: Installation of Solar Sash Building No. 119. Veterans Administration, Gulfport, MS	30,725.94
Mar. 11, 1985—Performance and payment bond: Hazardous material storage facility. Keesler Air Force, Biloxi, MS	108,000.00
Mar. 25, 1985—Performance and payment bond: Repairing, sandblasting and painting covered walkway canopies. Veterans Administration, Gulfport, MS	36,318.25
Apr. 3, 1985—Bid Bond: Clean and repair elevated 250,000 gallon water tank. Veterans Administration, Gulfport, MS	100,000.00
Sept. 28, 1984—Performance and payment bond: Family Service Center. Cecil Field, Jacksonville, FL	482,569.00
Sept. 19, 1983—E.M. Barracks with dining facility, Central Energy Plant, Company Administration and Supply facilities. Fort Bragg, NC	1,140,000.00

TESTIMONY OF JOHN WILLIAMS, OWNER, M.U.S.T. CONTRACTING CO.

Mr. **Williams**. Mr. Hayes and Mr. Mitchell, I would like to first apologize for not having a prepared statement to submit, but as I explained earlier, I have been out of town since we were made knowledgeable that a prepared statement was requested.

Mr. **Hayes**. We appreciate your coming.

Mr. **Williams**. We will submit one tomorrow when we return to our office.

The company I own is M.U.S.T. Contracting Co., which is an abbreviation for Minorities United in Specialized Trades.

Mr. **Hayes**. M.U.S.T.

Mr. **Williams**. M.U.S.T. Yes.

We are located at 1109 Pierre Avenue in Shreveport, LA, and 90 percent of our work is Government contracts. We do paving, bridges, utility projects, and drainage.

Construction is not new to me. My father was a building contractor who I worked with from my early days of existence. In 1969, I began to contract on my own. At age 20, I was a general contractor. At the age of 22, I was a journeyman electrician and worked for the U.S. Department of Agriculture as a construction specialist. I worked for the city of Shreveport as a construction inspector.

I worked for the city of Shreveport as the coordinator for the Minority Business Enterprise Program where I wrote the city's affirmative action plan which was approved by Federal agencies requiring one.

When I started doing heavy construction and requested a bonding company to write bonds for me, I found out that bonds were not available. I could have understood this if I had been a person without any experience, but my whole life had been spent in construction, both in the administrative part of it and field work. In 1982, we became aware of the SBA Bonding Program, and we applied for a performance bond in the amount of $32,000, which we did receive. Since that time, we have bonded jobs up to $400,000, but no bonding company, even at this time, is willing to write for us a performance bond, regardless of the size.

Enough cannot be said about the importance and the need for SBA.

The city of Shreveport paid some hundreds of thousands of dollars to do a survey on how to cut costs. The survey came back in essence saying that the city must cater more to small businesses, and in the conclusion of the study, it was determined that the banks in Shreveport were not willing to make loans to small businesses.

The bonding companies are not willing to make bonds for small businesses. We could not play any part in the construction field, if we were not being bonded through SBA.

We are always receiving 8(a) contracts through SBA. Ninety percent of our work has increased since we became involved with SBA. Prior to them, we couldn't do anything but residential building. Right now we are responsible for the employment of some 30-odd people, and we have on hand approximately $1 million in contracts.

Our business is 3 years old, and I think that we would be in the same place right now as 3 years ago if we had not been made aware of SBA.

I cannot begin to express my gratitude and my need for SBA in both the bonding program and the 8(a) program.

Thank you.

[Mr. Williams' prepared statement follows:]

PREPARED STATEMENT OF JOHN WILLIAMS, OWNER M.U.S.T. CONTRACTING CO.

The company I own is M.U.S.T. Contracting Co., which is an abbreviation for Minorities United in Specialized Trades. We are located at 1109 Pierre Avenue in Shreveport, LA. 90 percent of work is Government contracts. We do paving, bridges, utility projects, drainage, and building construction.

Construction is not new to me. My father was a building contractor who I worked with from my early days of existence. In 1969 I began to contract on my own. At age of 20, I was a journeyman carpenter. At the age of 22, I was a journeyman electrician. I have worked 2 years for the United States Department of Agriculture as a construction specialist. I worked for the city of Shreveport as a construction inspector.

I worked for the city of Shreveport as a coordinator for Minority Business Enterprise Office where I wrote the city's affirmative action plan which was approved by Federal agencies requiring one.

In 1982 when I started doing heavy construction and founded M.U.S.T. Contracting Co., there arose the need for performance bonds and I found that bonds were not available. I could have understood this if I had been a person without any experience, but my whole life has been spent in construction, doing both administrative and field work. In 1983 we became aware of the SBA Bonding program, and applied for a performance bond in the amount of $32,000.00, which we did receive. Since that time, we have bonded jobs up to $400,000.00, but no bonding company, even at this time is willing to write for us a performance bond, regardless of the size, at a rate we can afford and still remain competitive without a SBA guarantee.

Enough cannot be said about the importance and the need for SBA.

The city of Shreveport paid some hundreds of thousands of dollars to do a survey on how to cut costs. The survey came back in the essence saying that the city must cater more to small businesses, and in the conclusion of the study, it was determined that the banks in Shreveport were not willing to make loans to small businesses. The bonding companies are not willing to make bonds for small businesses.

We are also receiving 8(a) contracts through SBA. Our sales has increased tremendously since we became involved with SBA. Prior to them, we couldn't do anything but residential building. Right now we are responsible for the employment of some 30-odd people, and we have on hand approximately $1 million in contracts. M.U.S.T. Contracting Co. could not play any part in the construction field, if we were not being bonded through SBA.

Our business is 3 years old, and I think that we would have been in the same place now as we were then if we had not been aware of SBA.

I cannot begin to express my gratitude and my need for SBA in both the bonding program and the 8(a) program.

Mr. HAYES. I am going to yield my time to my distinguished chairman, Congressman Mitchell.

Mr. MITCHELL. Thank you.

Thank you, gentlemen. You make this whole fight well worthwhile.

Mr. Williams, that is tremendous progress in your business, fantastic.

Mr. Norman, I want to quote you again and I am going to quote you on the floor of the House of Representatives during the course of debate, but I want to quote you right now so it stands out in the record. Your testimony says: "From 1982 to 1985, Isaac Norman Construction Co., Inc., employed a minimum of 420 people who could have been in the unemployment line. This program must be kept in force because I cannot operate if it is abolished. I will be in the unemployment line along with everyone else." Let me go on: "As a small business, we average 140 jobs per year for any person looking for employment in the construction field." Just that alone, is enough to justify the continuance of this program.

Thank you. You make me feel right feisty this afternoon because of the kind of sacrifice and stick-to-itiveness that you have shown.

Mr. HAYES. The next panel is Panel No. 8 dealing with the SBIC and MESBIC Programs: Mr. Humphries, Mr. Sandeman.

Mr. Humphries, I have not noticed your prepared statement.

Mr. McDonald, Mr. Chinn, I have noticed yours; and Mr. Bolanos.

Mr. Humphries.

TESTIMONY OF WILLIAM D. HUMPHRIES, CHIEF EXECUTIVE OFFICER, WALNUT STREET CAPITAL CO.

Mr. HUMPHRIES. I mentioned to the chairman that I grew up in Bethesda when they used to call it B Town. It was a small little town.

Mr. HAYES. I don't want to miss what you are saying. Please speak up.

Mr. HUMPHRIES. I grew up in the Bethesda, MD, area, when it was a town we called B Town.

I have been down here for a number of years. I have done some financing in Chicago so I know your area, too.

Royal Street Investment Corp. was licensed as a SBIC in 1962, in the early days of the program, and has been doing business ever since, but changed its name in 1982.

In 1962, when we started out—I have been the chief executive officer in the company during all those years—the venture capital industry in this country consisted of American Research & Development, the Rockefeller family, and that was about it.

The SBIC's have provided the money and training for the venture capital industry.

Over the 20 some years I have been in this business, the Walnut Street Capital Co.—we changed the name in 1982—we have invested some $7 million in 35 companies over the years. All have been equity types of investments. I have served on the boards of about

20 of those companies, so I have played an active role in the ones, the successes as well as the failures, and there have been some of both, but in every instance we did provide jobs, one reason for the program's existence.

I would like to say that the great mystery to me in what is taking place in Congress today is that here we have a program where the Federal Government has collected $100 in taxes for every dollar invested. That is a return that would bring a smile to the face of any venture capitalist, but it doesn't seem to suit Congress.

Mr. HAYES. Maybe they are not conscious of it.

Mr. HUMPHRIES. Those are figures that will stand up, but I would like to repeat them for the record. I think it is a damn good return on investments for the Federal Government.

A couple of years ago, 1983, I was introduced to Tom Sandeman, on my right, and Vincent Liuzza, the founders of a company called Cucos, a Mexican restaurant chain, and what we did there was to put up a portion of the equity money that they needed in order to go out and raise a larger amount of capital from the public in order to carry out an expansion program, and they have gone from three restaurants at that time to nine restaurants today in the space of 2 years and created a lot of jobs in the meantime and are returning a profit and paying taxes and doing all the good things that we hoped were going to happen when we put up our money.

I would like at this time to introduce Tom Sandeman, the chief financial officer of Cucos, a Metairie, LA-based company.

Mr. HAYES. Mr. Sandeman.

TESTIMONY OF THOMAS J. SANDEMAN, CHIEF FINANCIAL OFFICER, CUCOS, INC.

Mr. SANDEMAN. Thank you, Bill.

My name is Thomas J. Sandeman, and I am here today to speak in support of the continuation of the financial and other assistance programs of the Small Business Administration. I am a certified public accountant and am currently serving as the chief financial officer of a new publicly held restaurant company called Cucos, Inc.

My experience with SBA assistance programs for entrepreneurs spans over 15 years, has occurred in three States, and covers three different industrial classifications from road building to restaurants. I have seen first hand the jobs created, the taxes paid, and more importantly, the culmination of the American dream through direct or indirect activities of the Small Business Administration.

My most recent experience with SBA activities relates to the creation of a new Mexican restaurant company called Cucos. In March 1981, Cucos was born in Metairie, LA, a suburb of New Orleans by the Liuzza family, a family who has been in the restaurant business in New Orleans since 1938. The Liuzza family initially utilized SBA financing in creating another company called Sizzler Family Steak Houses of southern Louisiana and at one time operated as many as 11 restaurants with almost 400 employees.

When the inflation/recession spiral hit in the late 1970's and early 1980's, the Liuzza family created Cucos out of a losing steakhouse operation, thereby saving 30 and creating 35 new jobs. By

Sepember 1983, Cucos had expanded to three restaurants by converting an additional steakhouse and by building one restaurant in a strip shopping center, resulting in the creation of an additional 170 jobs.

Vincent J. Liuzza, Jr., founder and president of Cucos, Inc., then accomplished a private placement of Cucos common stock, part of which was purchased by Walnut Street Capital Co., a SBIC here in New Orleans. Part of the proceeds of this private placement were utilized to convert yet another steakhouse to a Cucos, saving an additional 30 jobs and creating 35 new jobs. In addition, the managing general partner of Walnut Street Capital, Mr. William D. Humphries, was appointed to the board of directors of Cucos, Inc., in January 1984.

With his help and assistance and a lot of old-fashioned entrepreneurial hard work, Cucos has grown to six company-owned and three franchised restaurants in three States. Two additional restaurants in Alabama and Louisiana are under construction, and two additional sites in Louisiana and Florida will be committed to this week. Through the direct and indirect influence of activities associated with the SBA, the founders and management of Cucos, Inc., have been able to create or save about 600 jobs in the past 4 years in places like Monroe, Hammond, and Alexandria, LA; Hattiesburg, MS; and Pensacola, FL. In addition, we expect to create about 850 new jobs during the next 12 months by opening 5 company and 8 franchised restaurants.

We are appreciative that the SBA existed so as to allow Cucos to grow and prosper. However, more importantly than the past is the impact the SBA may have on our future. Part of the proceeds from our public offering was to start a franchise program for the Cucos concept. Cucos is now qualified to sell franchises in 35 States and has sold the development rights to build an additional 50 Cucos in the next 9 years. Our franchisees represent another source of entrepreneurial spirit in need of the resources of the Small Business Administration. We hope these services will be as available to them as they were for us.

Thank you for the opportunity to testify before this committee in support of the continuation of the financial and other assistance progams of the Small Business Administration.

Mr. HAYES. Thank you.

Mr. McDonald.

TESTIMONY OF JACK McDONALD III, INVESTMENT OFFICER, LOUISIANA EQUITY CAPITAL CORP.

Mr. McDONALD. Thank you, Mr. Chairman.

My name is Jack McDonald III, and I am an investment officer with Louisiana Equity Capital Corp., which is a wholly owned subsidiary of Louisiana National Bank of Baton Rouge, and we have been a federally licensed SBIC since 1974. I appreciate you gentlemen coming down from Washington to meet Americans and to hear what we have to say about the SBA.

Mr. Chairman, our company exists in an environment in Louisiana which is not well known for venture capital and yet with the help of the Small Business Administration and our license from the SBA, we are actively involved in venture capital and have placed $900,000 in just the first quarter of 1985.

The gentleman I would like you to hear from is Mr. Robert Chinn, chairman of one of our portfolio companies, and Mr. Chinn was formerly senior vice president and assistant to the chairman of the Control Data Corp., and currently acts as president of Control Data, Caribbean, has a wealth of business experience, and will give you gentlemen some insight on what it is like for small business to raise venture capital in Louisiana.

Mr. CHINN. We have met before, sir.

Mr. MITCHELL. Yes.

Mr. HAYES. You are smiling for different reasons.

Mr. McDonald, you didn't, by chance, graduate from the Hamburger University in Illinois, did you?

Mr. McDONALD. No, sir.

TESTIMONY OF ROBERT C. CHINN, CHAIRMAN, CHIEF EXECUTIVE OFFICER, DATA SYSTEMS OF BATON ROUGE, INC.

Mr. CHINN. My credentials as chairman, have already been explained to you. I am chairman of Data Systems of Baton Rouge, a small company, small in many respects.

I want to thank you, Mr. Chairman and Mr. Hayes, on behalf of my company for the opportunity to appear before you today and to make this statement.

I would like to say at the outset that I am here not only to speak for the company, my company, in support of the SBA and SBIC, but to speak also as a strong advocate for the job creation process.

In that respect, I realize I am preaching to the choir, to some extent, but I am no stranger to that entire process, as Mr. McDonald has already said.

I spent many years with Control Data Corp., 16, 17 years, and during the major part of that as assistant to Mr. Norris, chairman and chief executive officer, and I was the principal officer in charge of developing the system by which we have established jobs, a job creation network, Business Technology Center, in many cities throughout the country.

As chairman of a small but growing company engaged in software development and publishing for the computer industry, my appreciation for the availability of SBIC funds for equity capital is not unlike the chief executive officer of any other company in great need of growth capital.

Despite the fact that Data Systems of Baton Rouge owns and markets a state-of-art microcommunication software technology, had it not been for Louisiana Equity Capital Corp., we would not have been able to raise badly needed first-round financing in Louisiana. As a company just beginning to achieve worldwide recognition for its product, our immediate need was to obtain additional working capital to intensify our product development and broaden our market penetration. Despite the fact that our copyrighted technology has supporters and users on four continents, we were faced with a Catch-22 situation as we were considered in our early going by established high-technology venture capital companies on the east and west coasts: In order to attract such capital, a track record was required, but, in order to achieve such a record, venture capital was required.

But our situation is not unique. It is a fact that venture capital from outside Louisiana, either directly or through participation, cannot be obtained without the active support of local venture capital organizations. I cannot speak for other areas of the State, but I can testify that SBIC's dominate the venture capital industry in Baton Rouge. Without SBIC's, finding institutional venture capital would be almost impossible. Let me direct the committee's attention to this significant statistic: As reported in the most recent Guide to Venture Capital Sources, 7th edition, only two non-SBIC venture capital firms are doing business in Louisiana, while there are eight SBIC's and two MESBIC's in the State. Compare this, if you may, to the State of Massachusetts where 50 non-SBIC private venture capital firms are listed. Further examination reveals that there is far greater geographical dispersion of SBIC than non-SBIC venture organizations, with SBICs licensed in 46 States.

Louisiana National Bank, whose subsidiary, Louisiana Equity Capital Corp., has recently become a joint venturer in the entrepreneurial effort represented by our small company, could not have provided our needed capital without the SBIC program. As you know, the 1958 act gave banks their only exemption from the Glass-Steagall Act, through SBIC subsidiaries. Without the SBIC program, therefore, institutions like Louisiana National Bank that are seeking to promote entrepreneurship in Louisiana would have their hands tied. The flip side of this situation would find small firms like Data Systems of Baton Rouge coming up short. Thus, our potential for substantial growth in creating jobs for Louisianians, and, let me add, great potential for carving a substantial high technology niche for Louisiana, could go begging.

Mr. Chairman, when a small company is in its early stages of growth, like SDBR, I am sure I don't have to labor the point to you that the going is hard. New companies like DSBR do well to break even, and can even have a negative net worth. In this situation, promise is not enough; potential is unlikely to bring debt capital from commercial banks. But with the opportunity for equity, organizations like LECC have the incentive and are able through their SBIC license to invest and, in our case, allow a company to grow and create more jobs for Louisiana citizens.

Let me say, Mr. Chairman, in closing, that I am no stranger to the job creation process. Before retiring, and returning to Louisiana and making my own investment in DSBR, I was with Control Data Corp. for 16 years, the last 10 years as senior vice president and assistant to the chairman, William C. Norris. In that capacity, I was the principal executive for Control Data engaged in developing and supporting small businesses in many cities throughout the country—one of which, I am proud to say—was in the constituency of the chairman. As in Maryland, and other States, there is a continuing major need for the SBIC program and I sincerely urge Congress to continue this vital program.

From the point where we began with our present software product, we have moved from 16 to 26 jobs. The projections we see are not only to allow Louisiana and Louisianians to carve a nitch in this whole high technology scene, we will double and triple that number.

Truly, it is high technology, new, different for the industry, what we are doing, but it is an opportunity, in fact, to start Silicon Bayou right here in Louisiana, and we are part of that process.

Mr. HAYES. Thank you very much.

Mr. MITCHELL. This is fascinating to me because there is no reason on Earth why high technology stuff has to be concentrated in Massachusetts and the Silicon Valley. I don't think you get the venture capital people to approach this with the state of usual venture capital, because they have blinders on, they see Boston, Tip O'Neill, and they see Silicon Valley.

It is the way to the future in high technology and no geographic area should claim exclusive control over it.

Mr. CHINN. Thank you very much. I appreciate that statement on your part. That is exactly the way we feel.

Mr. HAYES. The final witness is Jack Bolanos.

TESTIMONY OF JACK BOLANOS, PRESIDENT, OLD TIME ENTERPRISES, INC.

Mr. BOLANOS. Thank you, Chairman Mitchell, Congressman Hayes.

My name is Jack Bolanos and I am president of Old Time Enterprises, Inc.

Old Time Enterprises is a coffee processing and packaging business. It has vacuum canning facilities that process roasted, ground universal, specialty, and gourmet coffees. Recently, Old Time Enterprises successfully received 8(a) certification and was able to secure a contract to provide coffee to the Department of Defense. Old Time Enterprises is an example of a minority company that was able to successfully utilize management experience and the various programs available through the Small Business Administration to develop a company that has the potential to process over 9,000 pounds of coffee per 8-hour day, and eventually expand into processing and packaging spices and related products. As the company expands, we expect to provide 38 jobs over the course of the next 2 years. Sales in 1985 are projected at $2.1 million and $3.8 million in 1986.

Old Time Enterprises is a story about an entrepreneur who has extensive management experience in the coffee service industry. I organized and developed the New Orleans branch of Cory Corp. in 1967. I was soon promoted to regional manager and was responsible for over 11 branches through the Southeast. When I left Cory Corp., I organized Old Time Coffee, Inc., in October 27, 1985. Old Time Coffee's objective was to provide quality coffee service in the Metropolitan New Orleans area. Because of the success of the business, we received an offer to purchase Old Time Coffee. The corporation was ultimately sold and I started Old Time Enterprises.

Three elements of any successful business are the management, the market, and the money.

I assembled a well-qualified management team. The market has been carefully defined and the company is uniquely located in the region of the country where coffee is a basic staple of the region.

And most exciting is the prospect and potential to utilize the new facility for other related types of processing and packaging. Through the 8(a) certification, Old Time Enterprises has successfully begun to capture the enormous potential within the Federal procurement sector by successfully obtaining the DOD contract.

Whenever you assume the risk of going into business, all successful entrepreneurs invest a tremendous amount of time and personal resources. In addition to personal resources, Old Time Enterprises was attractive to a minority enterprise small business investment company located in New York City.

Minority Equity Capital Corp. saw the potential growth of the company, from operating costs to market potential—and determined that Old Time Enterprises had the growth and profitability potential to warrant an investment of $210,000 in a combination of long-term debt and purchase of common stock.

The long-term success of Old Time Enterprises rests on a number of factors. There was a ready market for the product. In terms of management, I had the expertise, perseverance and willing advisors—important ingredients—for the company's continued success.

But as important as the product, market and management, our MESBIC investor was committed to our success. They believed in the product and felt that we had a winner.

You may be thinking, what does my experience have to do with other investments and SBA as a whole?

Before talking about the track records of these programs, I would like to address the terms of the debate over the value of these programs. Budget cutters most often couch the debate in terms of value received for use of the taxpayers' dollars. The deficit must go down and I think that this measure of value is a valid one. Unfortunately, however, adversarial rather than problem-solving approaches to our shared problem lead to extraordinarily narrow definitions of value.

Judgments of how well SBA spends tax dollars should be measured in terms of jobs created, and the consequent reduction of dependence on Government assistance. Value should also be measured in terms of businesses created that become part of community economic infrastructures, and the amount of payroll and income taxes these businesses pay to local, State, and Federal governments.

Since the MESBIC Program is one of the SBA programs that I know best, let me return to the MESBIC industry for purposes of illustrating the track record of an important SBA program.

For every company like Old Time Enterprises that venture capitalists in the MESBIC industry finances, they invest in hundreds of other minority businesses. The blacks, Hispanics, Asians, and American Indians who own and operate these businesses produce ball-point pens and food products, they do tool and die work and distribute paper products, they run fast-food franchises and develop computer software, they design and manufacture furniture, provide accounting services, process film, mix chemicals, and package fertilizers. In 1984 alone, MESBIC's financed 1,087 minority businesses, double the number financed in 1980.

Not all of these companies come out on top. After all, the risks to entrepreneurs and venture capitalists are well known. But many of these companies do well, and their success is measured in a number of ways.

Jobs are not the first measure for Wall Street, but I think they are important, and in 1984, companies financed by MESBIC's employed over 8,400 people. What's more, the majority of these jobs are located in inner cities, rural areas and communities struggling to build up their economies. Many of the men and women employed in these jobs would otherwise be forced onto unemployment compensation rolls or other forms of Government assistance.

From SBA's point of view, the loss ratio on funds invested through the MESBIC Program over a 15-year period is less than 1 percent. Please remember, this loss ratio is in the venture capital area where risks are high and profits a long time in coming. From my point of view, the ratio speaks well for the venture capitalists, and entrepreneurs and managers, who have invested their personal capital in picking winners and running companies over the history of the program.

I am a businessman, not a lawyer, and while my facts do make a case, I have really just told you a story, the story of Old Time Enterprises, of which the MESBIC industry and the other minority businesses its venture investors have capitalized are an important part.

I know that you have a formidable task in weighing the costs and benefits of SBA and its components. I, for one, do not view the SBA as a subsidized service industry. Through financing vehicles such as the SBIC industry and the 8(a) Program, I think that careful numbers crunchers would discover that SBA is a net asset to our economy when jobs, tax revenues and other measures are hanging in the balance.

Thank you, Mr. Chairman and Congressman Hayes for the opportunity to tell you about my convictions about SBA. At this point, I would welcome the opportunity to provide additional information to assist you in your task.

Mr. HAYES. Thank you, Mr. Bolanos, again, for an example of excellent testimony.

I want to say to each of the panelists that your testimony has been superb.

To those of you who have had experience in the investment field, and to those who serve as financial advisors, I want to say I think it is only fitting that I note that the chairman of our committee understands very well the task we have before us. I happen to share his opinion that while we may have a tough job ahead in our fight for the survival of the Small Business Administration as an agency, I feel quite optimistic about it.

I think the testimony that you have given us will be helpful. You may have influence over some of the people we have to deal with. If you do, invoke it in both Houses of the Congress, and I am sure you are not going to keep your position to yourself. We appreciate it.

I would like to call now on our chairman, Mr. Mitchell.

Mr. MITCHELL. Thank you, Congressman Hayes.

You are right. This testimony was superb, substantive and presented in the kind of precise fashion that makes us become good marketers of your program.

Let me just play, due to the role-playing we do in Congress, just imagine I am a man whose initials are D.S., and I take the position and make a statement, "I am tired of throwing money down a rat hole." I heard you over there talking about MESBIC investments, a 1-percent failure rate.

What kind of success rate have the SBIC's had? What is your failure rate? The same as MESBIC? MESBIC claims over 15 years they have a less than 1-percent loss in moneys. What about SBIC's? Can you match that?

Mr. HUMPHRIES. The measurement that we tend to make is return on our own investment capital, and there are not a whole lot of statistical information regarding the companies that the industry finances, continued businesses and the ones that go broke. There are some statistics out, but I am not sure how good they are.

You know, if we finance three companies and one of them goes broke and one is a bonanza and one is a break even, our capital is still intact and the money we owe the Federal Government is going to be paid. We have created jobs and that is the way we look at it rather than as percentages of companies surviving.

Mr. MITCHELL. I think I am going to ask the national group to get a statistic by companies because when you deal with those who are opposed to these programs, you have to anticipate questions along those lines. Your failure rate might be one-third, they would say, so we better address that.

Gentlemen, I thank all of you who participated in this long hearing today. It was a good hearing, and I think all of us have come out of it, certainly Congressman Hayes and myself, have come out with a feeling that we are going to redouble our efforts. I don't believe in white flags. I don't like to put up any white flags.

You fight a battle on the justice of the cause. There is no question but that what has been done in terms of the SBA programs across the board is that they have been productive for America.

Thank you for your testimony, and all I can do is express my appreciation to you and to Congressman Hayes, the staff, and again to Congressman Hayes for having chaired the hearing.

With that, I assume the gavel again and the hearing is officially over for today.

[Whereupon, at 3:30 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

SMALL BUSINESS ADMINISTRATION PROGRAM REVIEW
(Part 2)

FRIDAY, APRIL 19, 1985

House of Representatives, Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems, Committee on Small Business,

Chicago, IL.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 2541, Dirksen Federal Building, 219 South Dearborn, Chicago, IL, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. Mitchell. Good morning, ladies and gentlemen. This hearing will now come to order.

I am very pleased to be here in Chicago this morning, with my colleague Congressman Charles Hayes, and I expect that my other colleague from Chicago, Congressman Gus Savage, will be joining us shortly. Congresswoman Collins expressed regret that she could not be here. Her committee assignments have her in other positions.

I want to thank, personally, Congressman Hayes and Congressman Savage for the enormous amount of work they have done in helping to put this hearing together; and I also want to thank your staffs. They worked with us very, very closely. Putting an out-of-town hearing together is kind of rough and we needed all the help that we could get.

I would like to introduce Tom Powers, on my right, who is the general counsel for the Small Business Committee; George Grant, who was here a moment ago, the deputy general counsel for the Small Business Committee; and David Rehr, who is seated to my extreme left, is here representing the minority or the Republican staff of the Small Business Committee.

As many of you know, the President has proposed the elimination of the Small Business Administration. All financial assistance, all the loan programs, would be eliminated, repealed; other programs, such as procurement assistance and some others, would be transferred to the Department of Commerce, under the President's proposal.

Now, I think we have to be realistic. I have been in Congress a good long time, and the way you kill off an agency is to transfer its functions. And if these functions are transferred over to Commerce, that means that's the first step in eliminating them altogether. Commerce represents big business, not small business, and I do not think the programs would survive over there.

The committee which I have the honor to chair, the House Small Business Committee, is responsible for considering the President's proposal to abolish the SBA and for submitting our own recommendations, including the pros and cons, for consideration by a vote by the entire House of Representatives.

We have had field hearings all over the country. We have been in Los Angeles, Fresno, Portland, OR, Houston, and New Orleans. We are here with you today in Chicago, and Monday we will be in Philadelphia.

At each of these hearings, we will be seeking the views of small businesses which have participated in the SBA program. We want the truth, and I think we have been getting the truth.

I certainly appreciate the appearance of all the witnesses today and all of the small businesses, in particular, in each city that I have indicated. To take time out from a small business to come here to testify means you are losing money. No one likes to be away from his or her own business. I know it is at considerable sacrifice that you are here, and we deeply appreciate it. I want to assure you that only by this means, only through testimony in appeal hearings can we make sure that we are on the right track.

There is a lot of confusion about the present status of the SBA. As we moved around the country, some people have said, "Mr. Mitchell, I'm so sorry that SBA is closed down." It is not. I am going to take just a couple of minutes to brief you on the status, the legislative status of the SBA.

I mentioned earlier that the President had proposed to end the loan and other financial functions and transfer a few functions over to Commerce. Senator Weicker, who chairs the Senate Small Business Committee, already has an authorization bill. Essentially, his bill would make two major changes. It would end the direct loan program and would change the formula for guaranteed loans, from 90 percent guaranteed down to 80 percent guaranteed. As I recall it, his bill is an authorization for 3 years. That has passed by the Senate Small Business Committee. However, the Senate Budget Committee is crafting a Senate budget which would follow the President's recommendations, and that is, dismantle SBA.

Let me throw in one word of caution there. It is the thinking on the Senate side, and in Washington in general, that the only reason that was passed in the Senate Budget Committee was to get the budget to the floor of the Senate to be voted on. Some of the Members of the Senate who voted for that are clearly friends to the Small Business Administration and will fight on the Senate floor to preserve the Small Business Administration.

That is generally a picture of where things stand on the Senate side.

On the House side, I have already introduced a bill, H.R. 1281 a 3-year authorization for the SBA, essentially maintaining all the present components that are in place, but in light of the extreme pressures for reducing the deficit, there are some reductions. The thrust of my bill would be to keep the components in place. I have reasonable assurance that the House Budget Committee, is committed or will be committed to retaining the Small Business Administration, not to dismantling it.

Theoretically, the House budget should be acted on or before May 15. That's theoretically. We do not have any idea as to what date the House will really act on the budget. However, my committee will simply proceed tentatively, to markup the authorization bill.

There are some sheets available to you that will give you a rough picture of where we are in the legislative process, both on the Senate side and the House side, with reference to the Small Business Administration.

I would be remiss if I did not tell you that, in the hearings we have had around the country, there has been overwhelming support for the continuation of the Small Business Administration. We have gotten it from small business persons, from banks, from just about everyone. They are saying that the SBA, as an independent agency, must be maintained. In addition to that, the volume of mail that has come in to the House of Representatives and to the Senate, I would suspect, is 95 percent in favor of retaining the Small Business Administration as an independent entity. I can speak with a great deal of authority on this because as people have written to their Senators and their Representatives, they thoughtfully sent me copies, and almost all of that correspondence is overwhelmingly in support of continuation of SBA.

I give you those facts not to give you any false sense of security. I cannot sit here and guarantee you that the Small Business Administration will be retained. I can tell you that all the indications suggest that it will be retained, but there will be some reductions. We may lose one or two programs, but the bulk of the effort will continue in a separate independent agency, not submerged in Commerce.

With that statement, I would then turn it over to Congressman Hayes.

OPENING STATEMENT OF HON. CHARLES A. HAYES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. HAYES. Mr. Chairman, I am especially pleased that you were able to fit Chicago into the schedule of hearings on the Reagan administration's proposal to eliminate the Small Business Administration and to evaluate its impact on our Nation's small business community.

In order to make a fair assessment of the impact of this proposed closing, I share your opinion that we must listen to the experiences of those businesses that have received assistance from the Small Business Administration. I am pleased to see that we have a fine list of witnesses from across the State and, of course, from Chicago.

As you know, the congressional district that I represent is over 90 percent black and has been ravaged by the sickness of our economy. And in spite of the beautiful recovery picture emanating from the Reagan administration, unemployment in my district among black people is over 30 percent. Among teenagers, it is over 60 percent, with no lessening in sight. My constituents need jobs. I am well aware of the fact that 85 percent of new job creation is in businesses that employ less than 100 persons, and it becomes acutely clear that, without a strong, vibrant, and growing small business community, many of my unemployed neighbors will be condemned to stay that way. During 1984 alone, the SBA helped retain or create almost 13,000 jobs in the State of Illinois.

Additionally, small businesses provided valuable job training skills to many of our youth, skills and experience that can steer them off the corners and into more productive and meaningful lifestyles. I am extremely concerned about the future of our youth. I have a grandson that I love dearly, and it frightens me that he may have a dismal future ahead of him. A future where unemployment, gangs, teenage pregnancy, substandard and decaying housing, and hopelessness are the norm. I look at the small business community, in general, and the minority small business community, specifically, as one of the key elements in revitalizing our communities. Not only do small businesses enhance employment opportunities, but they are usually anchors in local economic development activities by helping to keep the wealth generated within the local community.

As our mayor, Harold Washington, stated recently:

> If we could get an even return from Washington of the tax dollars generated by the city of Chicago, that would go a long way toward putting our city back in the black. Likewise, if we can keep our minority and small business communities vibrant and healthy, it may go a long way toward restoring our local communities.

With this in mind, I am very suspect about the rationale that our President is using for closing the Small Business Administration, the only Federal agency mandated to assist small businesses. Fledgling entrepreneurs and local business groups are small business. And what does the small business do? Not much, just generate 38 percent of our gross national product. Is this another clever way to take away from those who need it most? Are we to be told another fairy tale about the mythical safety net for small businesses? Personally, I have heard enough fairy tales by the President and his advisers to last me for a lifetime.

I will be listening very attentively to the testimony that we are about to hear from our distinguished witnesses. I am extremely concerned about the regulations published recently by the U.S. Department of Transportation governing the Minority Set Aside Program. It is entitled, "Mentor Protege," and is being touted as a good way to increase minority business participation and economic development in the black and Hispanic communities. We have had to investigate the proliferation of the fronts in the Minority Set Aside Program. And I am deeply concerned as the administration proposed on one side to close the SBA, and on the other side to create another program in another Federal agency; this proposition has even greater potential for abuse. Instead, I believe we need to put teeth into the regulations, which prohibit so-called fronts, from siphoning contract dollars and opportunities from small legitimate businesses. Why not put that enforcement vehicle and program in the only agency presently mandated to assist small businesses?

Finally, another concern to me is the funding level of the Small Business Administration. Given the large task that Congress has told them to accomplish, if it wants success, we may have to alter our priorities: less for weapons of war and more for the programs and agencies that will help revitalize our cities, employ the millions of unemployed persons in this country, and to give hope to our youth.

I am confident that the testimony presented today will address our concerns and enable us to effectively evaluate the President's proposal and its effect on the vitality of the small and minority business community.

Mr. **Mitchell**. Thank you very much, Congressman Hayes.

Many of you in the audience do not know me, but those who do, know that I am a brutally frank man. And I do not go around giving out accolades to people if they do not deserve them. But, certainly, Congressman Hayes deserves an accolade. He has been one of the most hard working, consistent members of this committee that I chair.

And I want to publicly thank you, Congressman Hayes. You have made all the hearings. Every time we have a hearing in Washington, your are there. I don't know where you get all the energy, but we are deeply grateful to your zeal in carrying out your assignment on the Small Business Committee. I would be very pleased if you would chair this morning's session. I will be right here with you, but if you would take over the morning session, I would be very pleased.

Mr. **Hayes** [presiding]. Thank you very much for your kind words, Mr. Chairman. I consider it a part of my duty and commitment. The people elected me and part of my responsibility is to represent them. As a member of the Small Business Committee, I have tried to do it, wherever the hearings were held.

I would like to call to the witness stand, as members of our first panel, Mr. Richard Turner, Mr. Mendoza, Mr. Ruby, and Mr. Jackson; if you would come forward to these four seats. If we need an additional chair, we can always pull one over.

I think we have copies of each of your prepared testimonies. Let me advise you that you are at liberty, if you so desire, to read your statement in its entirety. But if you just want to deal with the highlights of it, it might expedite our hearing. We will hear it anyway you want to do it. However, your entire statement will be entered into the record of this hearing, and we want you to know that in the beginning.

We will call first upon Mr. Turner.

TESTIMONY OF RICHARD TURNER, SENIOR VICE PRESIDENT, SOUTH SHORE BANK OF CHICAGO

Mr. **Turner**. Good morning, Mr. Chairman, distinguished committee members. My name is Richard Turner. I am senior vice president and——

Mr. **Mitchell**. May I interrupt you just a moment?

Can you hear him clearly in the back?

You might want to pull your microphone closer to you and talk into this one.

Mr. **Turner**. Good morning, Mr. Chairman, distinguished committee members. My name is Richard Turner. I am senior vice president in charge of lending at South Shore Bank of Chicago. I am grateful for the opportunity to put before you today the bank's case for the preservation of the Small Business Administration.

Prior to 1973, South Shore Bank had never made an SBA guaranteed loan. In that year, the prior owners of the bank had intended to move it away from the South Shore neighborhood, depriving its 80,000, mostly minority residents of a local bank. They were frustrated by the Comptroller of the Currency's decline of their application to relocate and, accordingly, decided to sell out to the present ownership of South Shore Bank.

The management team which took over South Shore Bank in the summer of 1973 immediately confronted the problem of the bank having lost 50 percent of its deposit base in the preceding year, due to this effort by the prior group to sell the bank. This management team, all of whom remain at the bank today, have pioneered the use of the SBA's Guarantee Program in the inner city in Chicago, at another bank in the 1960's, and their ability to use this SBA program tool to extend long-term financing to neighborhood businesses constituted an important element in the bank's ability to win back the confidence of local depositers. We had to send a clear signal that the management meant to practice with actual dollars what had theretofore been around the United States a very well-intentioned but largely academic pursuit, which was the redevelopment and revitalization of a large urban neighborhood.

The bank soon realized that sound and affordable housing constituted another element of redevelopment. Contrary to the prediction of some urbanologists, who said we'd lose our shirts and probably go out of business within 2 years, we did not suffer losses in our effort to improve the housing stock at South Shore by making loans available for rehabilitation to multifamily building owners. Actually, the dollar volume of loans to the apartment building owners in South Shore now exceeds our SBA portfolio by 25 percent, and its delinquency rate is lower than the delinquency rate in the industry around the country for real estate loans.

I think there is an important connection between our multifamily lending effort and the preservation of the SBA. Had there been no SBA, we would have gone ahead, to the extent that we would have been able, with apartment building lending in South Shore, anyway. These loans are not guaranteed by anybody, however. We are entirely at risk. Banks are under increasing pressure from bank examiners and regulatory authorities to pay attention to the concentration of assets in our portfolio, as well as their quality. The long maturity of apartment building loans—generally, 20 years—as well as the fact that the rates customarily have a ceiling on them, mandate that we have counterbalancing assets. In this connection, SBA has played a very important but I think little noticed role. The existence of the guarantee program has allowed us to leverage our scarce resources. We are only a $108 million bank, which is perhaps not tremendously small by neighborhood standards, but it is certainly small for a bank. We have been able to leverage our resources this way and have established a very aggressive presence in lending in our neighborhood, both in the residential and commercial sectors. It is very doubtful to me that our rehab program could have been/near as ambitious and far-reaching as it has been without our being able to counterbalance the risks there by using the SBA program in our commercial effort.

The strategy is paying off, we think. The market for real estate in South Shore has been broader, deeper. We have seen discernibly better prices for real estate in the last few years, and we have a new city commitment to assist in the revitalization of the commercial area, 71st Street. And we think these strategies all reinforce each other, and we do not think this would have been possible without SBA.

Because of our ability to do these types of things, South Shore Bank has had some success in attracting deposits, nationally, from socially conscious investors. Since these are not necessarily restricted to our trade area, they do, to a substantial degree, really, represent outside funds injected into an innercity economy. We have acted as a catalyst to stimulate this development, but as we constantly remind ourselves, and the bank examiners, once again, underline that and remind us, we still have to operate as a profit making organization within an industry that still is very highly regulated. And let's be realistic. The market for large multi- family buildings in a minority urban neighborhood still remains very shallow, very narrow. This is certainly a condition shared by the owners of neighborhood small businesses in a neighborhood like this. And I am going to very frankly say, without SBA, even a bank as committed as ours is to this type of lending, both commercial and residential, would of necessity be forced to pull back. We would never abandon this kind of lending, but we would be forced to pull back from certainly some of the fixed asset requests we're asked to entertain by local businesses.

As for startup businesses and those that need money only for working capital or for inventory, I think the answer is very clear. It is disheartening, but it's clear. We would be forced to constrain our activities very severely in that area.

I do not think I'm saying—I certainly don't mean to say that the SBA is or should be a prime determinant of a bank's lending policies. Very frankly, it is very difficult to imagine a bank around the country that could not survive the demise of SBA. SBA's problems should not be minimized. I have been on both sides of the fence. I worked here in the local Chicago SBA office for 8 years and have now, for 4 years, been with one of the most active SBA lenders in the country. I think I am in a better position than most people to appreciate the problems that there have been between the banks and the SBA partnership. However, to me, to justify the abolition of an agency which fosters job creation as effectively as SBA does, we sometimes forget all the Social Security and withholding taxes that all those employees pay, who are employed through the use of SBA programs. To justify the abolition of the SBA because its budget in and of itself won't allow it to reach an enormous percentage of small business owners in the country seems to be shortsighted.

Much has been made by the administration of the SBA's delinquency rate. Again, I do not want to minimize the problems the SBA has, but I think, as a banker, I will say that it is just as much the responsibility of the banks who originate these loans for SBA, as it is the SBA to get this delinquency rate down. I do not think we can blankly assume that society is equally well served if the financial institutions that have been making SBA loans cannot or will not make such loans conventionally, on the same basis without SBA.

I suspect that the selling off of the SBA portfolio, as has been suggested, would not bring the kinds of proceeds that the administration is talking about. I think that potential purchasers would deeply discount the price they would pay for the SBA portfolio because of the lack of surety as to whether the guarantees would continue to be honored without SBA.

And, in conclusion, I would certainly hope that we could preserve the Agency and consider whether there are not alternatives to keep SBA in place. I think there are some operating efficiencies that could be instituted. Let's not go on the basis of business as usual, but let's preserve something that has been of manifest help to one bank that has taken a lead for years and years in inner city development. Let's continue to give us a chance to demonstrate that this program can be made to work more efficiently.

[Mr. Turner's prepared statement follows:]

PREPARED STATEMENT OF RICHARD TURNER, SENIOR VICE PRESIDENT, SOUTH SHORE BANK OF CHICAGO

Good morning Mr. Chairman and distinguished committee members. My name is Richard Turner, and I am senior vice president in charge of lending at the South Shore Bank of Chicago. I am grateful for the opportunity to put before you the bank's case for the preservation of the Small Business Administration.

Prior to 1973, South Shore Bank had never made an SBA-guaranteed loan. In that year, the prior owners of the bank had intended to move it away from the South Shore neighborhood and thus deprive its 80,000 mostly minority residents of a local bank. Frustrated by the Comptroller of the Currency's decline of the application to relocate, this group sold out to the present ownership.

The management team which took over South Shore in the summer of 1973 immediately confronted the critical problem of the bank's having lost 50% of its deposits over the preceding year. These people—all of whom remain at the bank today—had pioneered the use of the SBA's 7(a) guaranty program in the inner city in Chicago at another bank in the 1960's. Their ability to use the SBA guaranty tool to extend long-term financing to neighborhood businesses constituted an important element in winning back the confidence of local depositors, as it sent a clear signal that the new management meant to practice with actual dollars what had theretofore been around the United States a well-intentioned but largely academic pursuit: the redevelopment and revitalization of a large urban neighborhood.

The bank soon realized that sound and affordable housing constituted another element of such redevelopment. Contrary to the public predictions of some urbanologists, the bank did not suffer unacceptable losses in its effort to improve the housing stock by making available funds for rehabilitation to qualified muli-family building owners. On the contrary, the dollar volume of such loans in our portfolio presently exceeds that of the SBA component by over 25%, and its low delinquency rate parallels industry-wide experience for real estate loans generally.

There is an important connection between our multi-family lending efforts and the preservation of SBA. Had there been no SBA, South Shore Bank would surely have gone ahead with such an initiative anyway. These loans are of course guaranteed by no one. Banks must pay increasingly close attention to the composition of their lending portfolios, however, and the long maturity of building rehab loans—generally 20 years—as well as the fact that the rate adjusts only every 2 years and customarily has a ceiling mandate that the bank possess counterbalancing assets. For us, SBA has played an important if little-noticed role in this respect: the existence of the guaranty program has allowed us to leverage scarce resources—we are only a $108 million bank today—to establish an aggressive lending presence in our neighborhood in both the commercial and residential sectors. It is doubtful that our rehab program could have been as ambitious as it has without our being able to leverage the risks inherent in the longer-term financing small businesses so badly need through the SBA guaranty mechanism.

The strategy is paying off for the neighborhood in a deepening, broader market for real estate, which has meant discernibly better prices for the last few years, and in a new city commitment to assist in the futher revitalization of the area's most important commercial strip. South Shore is on its way to becoming a magnetic community.

Because of the bank's ability to so deploy resources and because our earnings performance well exceeds industry averages, we enjoy some success in attracting "socially conscious" depositors, at market rates. Since these are not restricted to our trade area, to a substantial degree such deposits actually represent outside funds injected into an inner-city economy. Once again the bank has acted as a catalyst to stimulate development. But as we constantly remind ourselves—if we didn't the examining authorities would surely do it for us—these initiatives must go forward within the framework of a profit-making organization operating within a still-highly regulated industry. And let's be realistic: the market for larger multi-family dwellings in a minority urban neighborhood remains precariously narrow and shallow, a condition shared equally if not to a greater degree by the types of fixed assets owned by neighborhood small businesses and financed by a local bank. Without SBA, even we, I am certain, would find ourselves of necessity pulling back from some of the fixed-asset requests we would be asked to entertain. As for startup businesses and those that needed money only for inventory or operating capital, to me the answer is clear, and disheartening—the economics of constraint, not opportunity, would slowly but inevitably become paramount.

This is certainly not to argue that SBA is, or should be, the prime determinant of smaller banks' lending policies. It's difficult to imagine a bank that could not survive the demise of SBA. Nor should SBA's faults or problems be minimized. Having been on both sides of the fence, for nearly 8 years with the Agency in the Chicago District office and now with one of the most active SBA lenders in the midwest, I'm in a better position than most to appreciate the historical shortcomings of the partnership between SBA and the lending community. However, to justify the abolition of an Agency which fosters job creation as cost effectively as the SBA does—we shouldn't forget the social security taxes those new or additional employees of a small business pay, in addition to the other benefits conferred by job creation so well delineated to you in other testimony—because its own budget in and of itself will not permit it to reach but a small part of the small business community and because of a default rate which is just as much the responsiblity of the banks which originated the loans as it is the SBA seems to me unfair, but more importantly, short-sighted. Who is measuring the value of the Service Corps of Retired Executives, which costs the taxpayer nothing except nominal funds for volunteers' travel, for instance? Can we blithely assume that society is equally well served if the financial institutions cannot or will not make conventionally a significant portion of the loans to small businesses that they would have made if SBA had survived?

Why terminate a means of relatively low-cost job creation and sell off a portfolio for a fraction of its worth—I suspect potential purchasers of guarantees will discount them more than OMB would like to believe because of uncertainty as to what extent the guarantee will be honored if called upon—without considering whether there are not alternatives to "business as usual"? I think there are structural changes which could be implemented quickly which would result in savings within 3 years which should in themselves exceed the proceeds from the selling off of the portfolio. This program deserves more than an abrupt shake of the head; afford those of us who have demonstrated that the guaranty program does work a chance to make it more efficient.

Mr. HAYES. Thank you, Mr. Turner.

As our usual procedure, we will hear from the entire panel and then maybe we would want to submit to you some questions in regard to your statement.

We have just been privileged by the joining of our colleague, Congressman Savage, who is a part of this committee, also.

Congressman Savage, do you wish at this time to make a statement?

Mr. SAVAGE. Afterward.

Mr. HAYES. After the panel finishes; all right.

The next witness that we will be privileged to hear is Mr. Mendoza. Or is it Ms. Mendoza?

Ms. **Hoelzeman**. No, sir.

Mr. **Hayes**. You are representing him?

Ms. **Hoelzeman**. My name is Nina Hoelzeman. I am representing Mr. Mendoza, president of Mid-America Environmental Service, an Illinois corporation, headquartered in Riverdale, IL.

TESTIMONY OF NINA HOELZEMAN, ON BEHALF OF HENRY MENDOZA, PRESIDENT, MID-AMERICA ENVIRONMENTAL SERVICE, RIVERDALE, IL

Ms. **Hoelzeman**. Mr. Mendoza has been involved in the Small Business Administration as a lender and as a borrower, both.

In the early and mid 1970's, he was a loan officer in the Urban Development Division of the Hyde Park Bank & Trust Co. in Chicago. The division had one of the largest SBA portfolios, as well as minority loan portfolios in the country, at a time when it was not considered good business to have either. It was a time of learning for both the banks and the SBA. As a result of a lot of hard work on everyone's part, they had a loan portfolio in 1976 that was in excess of $22 million.

Mr. **Hayes**. Let me interrupt you just a moment.

Can you hear her clearly in the back? Is anybody having difficulty hearing?

Ms. **Hoelzeman**. They had a loan portfolio in 1976 that was in excess of $22 million, with delinquencies under 3 percent and losses at less than 1 percent, ratios that would be welcomed in any bank's regular loan portfolio today.

Eventually, Mr. Mendoza left banking to pursue business opportunities. In April 1983, he purchased Mid-America Environment Service, a liquid waste transportation company. At that time, the company had 6 full-time employees, sales of approximately $600,000 per year, and had shown a loss for the 2 previous years. The prior owner was in the process of liquidating the company's assets and had laid off most of the personnel. Maintenance and repairs on the trucks and equipment was essentially discontinued. With the help of an SBA guaranteed bank loan from South Shore Bank, Mr. Mendoza was able to rehire and retrain former employees, as well as hire and train new employees, upgrade the existing equipment, and purchase new equipment; all of which allowed us to effectively enter new markets in the hazardous waste management field. Our administrative and clerical personnel regularly attend SBA-sponsored seminars and training sessions at community colleges, ranging from such subjects as communications skills to workers' compensation.

This year we have attained substantial profits on sales of approximately $5 million. We have increased our work force to over 50 well-trained, experienced personnel, and are in the process of opening another office in Michigan. Projections for our next fiscal year estimate revenues will double to $10 million, and our work force will include more than 100 people. We are striving to become front-runners in our industry, and with the help of the Small Business Administration, I believe we are succeeding. We have recently been selected to receive an award of excellence from SBA in Washington, DC.

Our original SBA loan has been refinanced, not because we could not make debt service payments, but because we have experienced rapid growth and had need of additional working capital. Clearly, without the bank financing, we would not have been able to support that growth expansion. And it is also clear that without the SBA guarantee, we would not have been able to acquire the bank financing based on our projections and pro formas, alone.

I firmly believe that our story clearly illustrates the kind of purpose and success that the Small Business Administration is really all about. It is hoped by myself and by all the people who have shared in the success of Mid-America that this testimony may help mitigate some of the actions being contemplated by this administration.

Thank you.

Mr. HAYES. Thank you, Ms. Hoelzeman.

The next witness is Mr. Ruby.

TESTIMONY OF RICHARD RUBY, RUBY CHEVROLET AND VOLKSWAGEN, CHICAGO, IL

Mr. RUBY. Good morning, gentlemen. My name is Richard Ruby. I am one of the owners of Ruby Chevrolet, located in the South Shore community of the city of Chicago.

I have come here to express my opposition to the administration's proposal to abolish the Small Business Administration or, as we all call it by its family name, the SBA.

I remember, as I'm sure many of you do, my early years when I dreamed of having my own enterprise. Many people believe achieving this goal could not have even considered such a dream without financial assistance from some outside source. What avenues are available to an ambitious person without means? This country would be remiss to allow energetic entrepreneurs to drift into obscurity for want of financial backing. We would be sacrificing our most precious raw material, our human resource, if we did not put our Government's financial backing behind them.

As a caucasian operating an automobile dealership in a predominantly black Chicago community, I believe I am well tuned to the needs of urban America, and have operated a Chevrolet dealership in this area for over 30 years, and my economic credentials are amplified by my legal degree and appointment to the faculty of the Roosevelt University Walter E. Heller College of Business Administration, where I am now an assistant professor of business law. At Roosevelt, I am witness to the enthusiastic ambition of students who will graduate and, in many cases, hope to pursue a course of entrepreneurship. Upon graduation, they are usually without the personal wherewithal to achieve their chosen goals. Assistance from a concerned Government agency is essential to assure a continuous flow of fresh personnel, talent devoted to the future of this great Nation.

Although assistance from the SBA did not come at the inception of my business career, it was an urgent need when help from that source arrived.

In 1980, the continuation of my contribution to society was endangered by the economic crunch which threatened the continuation of my Chevrolet dealership. Through the assistance of a local bank, the South Shore Bank, and the Small Business Administration, we were able to obtain a lifesaving loan which permitted us to continue to operate through those tenuous years. But for the assistance of the SBA, we might have suffered extinction, and 39 employees, many of whom are minorities, would have been jobless and without relief for themselves and their families in a depressed economic area. We survived, thanks to the SBA, and we have provided even more jobs within the community.

The SBA serves a vital function in our economy. Small- and medium-sized business are the life blood of our economy and need the support of our Government so that our society can continue to perpetuate that dream which is best characterized by the phrase, "own my own business someday." It is my opinion that Congress should find a way to continue this vital arm of Government. Thank you.

Mr. **Hayes**. Thank you. Mr. Jackson.

TESTIMONY OF LEON JACKSON, PRESIDENT, BILL SHADES & BLINDS SERVICE, AND VICE PRESIDENT, CHICAGO REGIONAL PURCHASING COUNCIL

Mr. **Jackson**. Mr. Chairman, members of the committee, I am Leon Jackson, president of Bill Shades & Blinds Service, and vice president of the Chicago Regional Purchasing Council. It is my distinct honor to share with you today my views on the importance of the Small Business Administration to the minority business community in Chicago and, of course, nationally. I speak to you today both as a small minority entrepreneur and in my role as vice president of the Chicago Regional Purchasing Council, a 520-member organization formed in 1982 to increase the corporate procurement for minority suppliers.

Very simply, from our standpoint, the SBA, certainly in some form, must be retained. And this is true for a number of reasons, not the least of which is its importance to minority business which, by definition, is the smallest of the small businesses. SBA loan program and MESBIC involvement represent in some cases the only hope for loans and equity for many of my counterparts and myself. In fact, we often laugh when we discuss the SBA's requirement that you must be turned down by two banks to be considered for guaranteed financing. Some of us meet that requirement simply by showing up at two banks. If the SBA is eliminated, we will be taking away not the only, but certainly a very important incentive and a good deal of protection that the banks have to continue to lend to those who, by tradition and definition in some cases, cannot borrow money to start or buy a business.

Banks are caught between a rock and a hard place. In attempting to meet the requirements of their regulators, it is often difficult for a bank user to get a small loan through a loan committee, especially when that business is located in an area that has been written off, or when the applicant does not have a proven track record and, certainly, no friends or connections in the right places to help get the loan.

SBA is more important when that small minority business person tries to get into business, perhaps, through an SBA loan or through personal financing or through investment of family and friends, and hits that wall that every business hits at one time or another, whether they are successful or not; and that is the need for additional capital. Many times, that person is no longer bankable. All resources are already tied up and available funds are gone. He goes to his friendly banker who says, "I know you. I see the numbers and the numbers look good for your business. I know you can do it, but I cannot approve a loan because I have no security, no guarantees." The local MESBIC that you deal with is loaned up and, besides, you cannot wait for the time for an outsider to machinate your proposal.

So, for the most part, that business has to contract, maintain level, or perhaps close its doors.

That is important, because most of us that represent the inner city, we know that those areas, for the most part, have already been abandoned. We are trying to revitalize those areas, and those of us who do not live and work there must recognize that when businesses move away they create a myriad of social problems. When people work close to home, down the street, it creates an additional commitment to the neighborhoods. We are most likely to shop where we live, we are most likely to improve our property where we live and work, and just as important, if not more important, it gives us an incremental amount of time to spend with our children. But mostly, as it relates to minority business, we tend to hire in our own images, and that means those we consider hard to employ. If we are to restore the more than 200,000 jobs that Chicago, alone, lost to foreign competition and to the Sun Belt between the years 1972 and 1983, the creation and development of small minority business must become a priority. The Small Business Administration and other public sector agencies, private sector companies, such as those in the CRPC, and the community must work together to rebuild our broken cities and the broken lives that come as a result of our disinvestment.

When small businesses, such as the one I bought recently, move out, we create abandoned buildings, we eliminate real estate tax from the tax rolls, we create a circumstance where the hard to employ—and that is someone else's term, not mine—no longer have a place to be employed.

If I may, I would like to take just a moment to give you an example of a company that I bought recently in the first congressional district. I think it is kind of typical of what the SBA can do or what it means to have an SBA. I am an experienced businessman. I have been in business 12 years. My first SBA loan was to go into a business manufacturing loose-leaf binders. That business is located in the suburbs. We employ 115 people. The loan was taken out 12 years ago and it was repaid on time. But I grew up in the west side in the black community, and I felt that that was where I belonged. Through the effort of a number of people, we were able to locate a small business that was deteriorated, not because it was not a viable business, but because the community and the market, as we know it, and the owner had all sort of grown old together. The business was 60 years old. The owner had been in the business all of his life; 85 years old, well past retirement. The business was deteriorated, but it employed 15 people who walked to work.

It was an entrepreneurship in the old sense; had no financial records, very little track record that you could really put a handle on. You didn't know who you were selling to, for what, how much, and no cost system. My experience, though, told me that this was a viable business. It also told me that if this business was closed that that building would be closed, as well. That is a property that contributes about $7,000 to the tax base, not to mention what the wages contributed in terms of the tax base—some of the employees are homeowners.

If it had closed, those 15 employees, for the most part, would have been on the street because they are people who cannot walk into the average bank or the average office and expect to get gainful employment. They are part of that hard to employ. But through an SBA loan from the South Shore Bank and 2 years or more of negotiating and massaging, we bought that business. And today, despite the fact that we just completed our first year in business, and have spent enormous amounts of money in terms of trying to train our people and bring the building up to code—and I did say up to code—we operated, as of the end of last month, at break even.

And that is important because the time of the year that is usually the worst in that industry is January and February. People don't buy window shades and blinds when there is nothing to see out the windows, but our sales were up about 40 percent. Instead of cutting back on employees, which had been the tradition in that business, we were able to maintain our level of employees; that means, not lay anyone off.

With the effort we put forth, our employees, these hard to employ people that basically have basic skills, were turned on and, as a result, together we experienced a 40-percent growth in sales for that period, compared to the previous year.

Now, we are not saying that SBA caused this to happen. But what I am saying is that I certainly would not have been able to get into business the first time without an SBA loan because I had absolutely no track record and less money. But we are saying that the SBA does give a sensitive bank the incentive to make the loan the first time. You take my experience, a favorable market, perception of a favorable market, and some good employees, not fancy, but some good, basic, hard-working folks; we were able to maintain those 15 jobs and a lot of hope, including some role modeling in that community.

Now, with my assets being tied up in this business, and if everything continues to go well, we know that we are going to need additional financing, hopefully for growth. Naturally, SBA will be a potential source. But what happens if we hit the wall, that we do not do as well, if the economy turns; and what happens if SBA is not there? What happens when because the MESBIC program, which is a large prominent part of SBA, what if they are not there? The source of equity capital for a minority business, in general, and a black business, in particular, will be dried up, and the results could and probably would be devastating, both to the minority community, but, just as important, to the greater community, meaning the city, the State, as well as the country. Thank you.

Mr. Hayes. Thank you, Mr. Jackson, and to the rest of the witnesses on this panel.

As I suggested in the beginning, we would have some questions that perhaps we would throw at you.

To begin with, I would just like to make a statement. Your testimony has been excellent, both the prepared statements and your remarks. I want to sound a word of caution. Even though we have these hearings, and you have helped us by what you have said about your experiences, there is a great danger that this administration will have its way—and I hope it does not—which could lead to the dissolution of the Small Business Administration. I just want you to get active, as small businessmen, in making contact with representatives of both Houses of Congress when the situation and time arises. And we will have to deal with this situation; don't wait until the last minute to begin to let them know that you would like to see the retention of the Small Business Administration. Do not confine that feeling to yourselves; let your position be known to people who have to vote so that you will be able to have some impact on them.

Congressman Mitchell.

Mr. Mitchell. Yes. I do want to congratulate you on very excellent testimony, and I want to enlarge on one or two points that have been made.

First of all, Mr. Turner, I am delighted about that low delinquency rate in your mortgage portion of your own activities. One of the charges that we hear all the time by our critics of the SBA program is that everything is delinquent. Well, in reality, everything is not delinquent. The delinquency rate on small business loans made through the Small Business Administration is comparable to the bankruptcy rate that all small businesses experienced over the last 2 or 3 years.

In addition to that, I want to comment on two particular points that you made. You had indicated that Mr. Stockman or the administration had said that the SBA only helps out 21,000 businesses a year. Sure, that's all it helps, in terms of the amount of money that is made available to it. But you have to take into account a lot of other factors. For example, in addition to those 21,000 businesses, 14,000 business disaster people were helped by the Small Business Administration. Four thousand more businesses received equity capital through the Small Business Investment Companies. Five thousand participated in the 8(a) program; 210,000 will receive counseling every year; and 380,000 people who will receive training every year. So I think it is—I am reaching for the softer word now—I think it is duplicitous to try to dismantle a program just based upon those 21,000 businesses that are known. We are talking about, literally, hundreds of thousands of businesses.

The other thing that I wanted to comment on was the proposal to sell the portfolio; you mentioned that. If ever the Government wanted to open up its doors to some slick guys who wanted to make a windfall, this would be their opportunity to do it, to sell these loans to improve cash flow. The agency has a loan portfolio of almost $10 billion. The President wants to sell it. The administration budget proposal includes the sale of $9.8 billion in loan assets over 4 years, but projects a yield of only $1.83 billion. In other words, if this would go through, you would expect to receive only 19 cents on every dollar held in that loan portfolio.

And I will be honest with you; if I were a businessman, a sharpee out there, and I saw that kind of break, I would go in and buy up every one that I could for 19 cents on the dollar, and let the Federal Government take a beating. It is almost incomprehensible to me to assume that a David Stockman, who purports to be a pretty sharp guy, would open up the door for a rape—really, that is what it is—a rape of the Federal Government. These facts have to be known.

Let me congratulate you, Mr. Jackson. Stay with it. It makes good sense.

Ms. Hoelzeman, one other statement for you. When you started that business, or when you saved it, really, he had six employees, right?

Ms. HOELZEMAN. Yes.

Mr. MITCHELL. With the help of SBA, you now have 50. Are they full-time employees?

Ms. HOELZEMAN. Fifty full-time employees.

Mr. MITCHELL. If things go well, you expect to have 100?

Ms. HOELZEMAN. Within the next year, with the Michigan office they are planning on opening, they expect to need 100 personnel.

Mr. MITCHELL. With 8.5 million Americans out of work, I just do not see how it makes any sense to propose the abolishing or the dismantling of SBA which, as Congressman Hayes suggested earlier, does create the jobs. That is where the jobs are. Everybody else is so automated and robotized and whatever else they have done, they do not need people. But it is the small businesses that employ people.

I think you have made an excellent case for the retaining of the Small Business Administration, and I thank you.

Mr. HAYES. Thank you, Mr. Chairman.

Mr. Turner, did you give a percentage figure of the defaults that you have experienced at the South Shore Bank on loans?

Mr. TURNER. No, I didn't. The percentage figure on defaults in our portfolio, since inception—we have been using the SBA for 12 years now—would be about 8 percent. It could be lower, but I don't think that is so——

Mr. HAYES. That is not bad, is that what you want to say?

Mr. TURNER. Yes. I do not think it is so bad.

Mr. MITCHELL. To me, that is not bad when you look at a 40-percent bankruptcy rate for all small businesses in America 2 years ago.

Mr. HAYES. Mr. Ruby, I have been hearing of Ruby Chevrolet—and this is not a sneak commercial—for a number of years. You said you have 39 employees. Is that currently?

Mr. RUBY. No. That was the number of employees that we had in 1980 when we obtained the SBA loan.

Mr. HAYES. Where are you now?

Mr. RUBY. We are over 50 employees now.

Mr. HAYES. Over 50 employees. You have benefited from SBA?

Mr. RUBY. Most assuredly. We would not have survived without SBA.

Mr. **Hayes**. And, Mr. Jackson, I want just a little elaboration to satisfy my own curiosity. In your statement, on the third page, I think, in the third paragraph, you said: "Through an SBA guaranteed loan from South Shore Bank and 2 years or more of negotiating and massaging." What do you mean by "massaging"?

Mr. **Jackson**. Well, I should have been a little clearer. The massaging was that in trying to buy a business from someone who is about 82 years old, you just do not walk in and make them a cash offer and walk out with the business. There are several things that take place. No. 1—especially with this particular individual, who still works as a consultant. He really doesn't want to sell it. Someone had told him that he should sell it. He thinks it is worth too much, and he doesn't believe that anybody can run it. So the massaging takes place at that level.

Mr. **Hayes**. I understand. He needed a little stroking.

You also mentioned the fact that—I do not know where your source comes from: "We have lost 200,000 jobs"—I am not questioning the accuracy of it; I do want to know the source of that figure—"to the Sun Belt and to the foreign competition."

I think you may be a little low.

Mr. **Jackson**. I think I probably am.

Mr. **Hayes**. Where did you get your information? That is just a ballpark figure, is it?

Mr. **Jackson**. Yes. It is a ballpark figure. It is from the SMSA statistics, I believe, from the Association of Commerce & Industry. It may not include all categories.

Mr. **Hayes**. And you currently employ 15 people.

What kind of business is it? I'm just curious.

Mr. **Jackson**. Window shades. Manufacture——

Mr. **Hayes**. You say it is located in the First Congressional District?

Mr. **Jackson**. Yes; it is.

Mr. **Hayes**. Where?

Mr. **Jackson**. Sixty-ninth and Cottage.

Mr. **Hayes**. Sixty-ninth and Cottage. Now I know where to go for window shades.

Mr. **Jackson**. That's right; venetian blinds as well.

Mr. **Hayes**. Thank you.

Congressman Savage, you had expressed a desire at some point to make a statement. I think it is time now, before we dismiss this panel.

OPENING STATEMENT OF HON. GUS SAVAGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. **Savage**. Let me apologize for being late, and say good morning. I would like to welcome the chairman to Chicago.

As you know, Congressman Mitchell has worked long and hard on behalf of small businesses, in general, and minority and black businesses, in particular. So, Mr. Chairman, it is an honor to have you in our city.

In light of the caliber of this morning's testimony, as much as I was privileged to hear, what I have to say is probably unnecessary. I would like to thank all of you who have come to testify today and, further, would like to take this opportunity to salute the small business community.

I need not remind this audience that small businesses are the major source of innovation in this country. Statistics show that two out of every three new jobs are created by small businesses. Small businesses have played an especially important role in the Chicago region, which has been hit particularly hard by plant closings and cutbacks. Studies show that small businesses have created more jobs in this region than in any other region in the country. For the sake of our city, and our black communities in particular, this is a trend that I hope will continue and increase.

In light of their enormous contribution, one would think that small businesses would be a primary benefactor of Government support. Yet, they continue to face an uphill battle. Dun & Bradstreet reports that the number of businesses that went under in the 1980's rivals the statistics of the Great Depression. The vast majority of those businesses were small businesses.

While President Reagan, Mr. Chairman, claims the economy has recovered, his policies have led to a recovery for only the very rich. As clearly pointed out by this morning's testimony, small businesses still face enormous difficulties in procuring the necessary funds. A General Accounting Office study in 1983 revealed that more than 80 percent of the financial institutions making SBA-guaranteed loans to small businesses would not have lent the money without an SBA guarantee. Black businesses, of course, face even greater barriers to securing necessary capital. The SBA was created in 1953 with a specific purpose of making direct loans to small businesses in light of this recognized problem. Its responsibilities have expanded over 32 years. Yet despite the continuing need and viability of the SBA, as documented in the Reagan administration's own studies, President Reagan has consistently attempted to undermine this agency. For instance, SBA direct loan approvals decreased from $150.9 million in 1982 to only $123.6 million in 1983. Especially significant is the fact that in 1983, only 4.8 percent of all loan approvals were direct loans. The direct loan program is one of the very few sources of financial assistance for black businesses. The President's hostility toward the black population, demonstrated throughout his incumbency, reigns clear in his treatment of the SBA.

In 1983, the SBA used only 54.9 percent of the loan funds that Congress appropriated. In other words, despite the need, it did not loan the money we had given it. The administration called for the abolishment of the direct loan program in 1984 and again in 1985, but Congress restored the funds.

In addition, the administration has long been on record against the vital 8(a) program, and has gone so far as to direct the Justice Department to intervene on behalf of the United States in opposition to set-aside provisions, despite the history of redlining, racial discrimination, and the notoriously difficult time that black businesses have had securing capital and contracts. The Justice Department's intervention was particularly pernicious, given that the courts have already ruled that set-asides are constitutional.

Under the President's current proposal, the SBA, itself, would be eliminated and its entire loan program would be turned over to the Department of Treasury for servicing and liquidation.

With all this, the SBA has continued to play a key role in facilitating small businesses.

So, today, once again, I want to salute the small business community and minority businesses, especially, and also those dedicated SBA employees who have worked together to build viable small businesses and to bring vital employment opportunities to our region. I look forward to hearing of both your successes and an end to your problems, and to continuing to work together to build a healthy economy for all.

Thank you, Mr. Chairman.

Mr. HAYES. Thank you, Congressman Savage, and thank you, members of our first panel.

Mr. MITCHELL. Mr. Chairman, just before you dismiss the panel, I want to take this opportunity, since Congressman Savage raised the issue about the Justice Department constantly going into court against minority business set-aside, to introduce both of you gentlemen to a person who is with us. We recognized that the position of the Justice Department would be against us. We saw that coming in 1981. And we have established our own minority business enterprise legal, defense, and education fund. We have about 60 to 80 pro bonum lawyers around the country who are going into court in our defense. We have a headquarters. People said it could not be done, but it has been done.

And the gentleman over to my right is Attorney Anthony Robinson, who is the president of the minority business enterprise legal, defense, and education fund, who is doing a magnificent job in representing us in court in cases all over this country, where we are at odds with the Justice Department and other entities.

So thank you very much. I know you have some appointments, but I wanted people to meet you. You just do not know what he and his lawyers are doing in courts. We have won almost everything we have been involved in, haven't we?

Mr. ROBINSON. That's correct.

Mr. MITCHELL. And we are going to keep on winning.

Thank you.

Mr. HAYES. Thank you, Mr. Chairman. It might have been a mistake to introduce him here because, in Chicago, we believe in using lawyers.

I want to thank again this fine panel for your testimony. Just keep in mind the age-old adage that the squeaky wheel is the one that usually gets the grease. And please squeak a little.

The next panel is Arnold Franke, the director of Southern Illinois University SBDC in Edwardsville, IL; Reggie Matthews, Fil-T-Kleen Co. in Hillsboro, IL; Dick McConnell, director of Elgin Community College SBDC in Elgin, IL. Come forward, please.

Let me say at the outset that we are in receipt of copies of each of your written testimonies and they will be entered into the record in entirety. You have the privilege, if you so desire, to read your testimony or you can deal with highlights of your testimony in any manner you see fit.

We will begin testimony with you, Mr. Franke.

TESTIMONY OF ARNOLD FRANKE, DIRECTOR, SOUTHERN ILLINOIS UNIVERSITY SMALL BUSINESS DEVELOPMENT CENTER, EDWARDSVILLE, IL

Mr. **FRANKE**. Thank you.

You do have my statement. I will not read it. It is too extensive. I will change focus, however, and not talk specifically about SBA loan dollars, but we are talking about a program supported by the Small Business Administration.

I am a director of the Small Business Development Center regional office at SIU in Edwardsville. We have four community colleges that work with us. We cover a 14-county area by providing assistance to small business.

In that downstate area, we have had a significant shift with regard to employment. Steel mills have cut back, refineries have cut back, and we find that structural change in our society has occurred. A lot of individuals, of course, are going into business, and we have found, exactly as committee member Savage was commenting on, that the new jobs are occurring in the small business sector. We find at the university that two out of three of our graduates go to work in the small business sector, as opposed to the Fortune 500 firms.

Our program, the Small Business Development Center Program, would not be in existence if it were not for the SBA funds that flow through the Department of Commerce and Community Affairs in the State of Illinois.

The tremendous advantage that the SBA funding has to the States is that it picks up additional dollars, additional resources from other agencies. For 1986, the State of Illinois is budgeting, currently, up to $3.2 million which they are allocating to assist the SBDC. We in southwestern Illinois had last year a $40,000 grant, in 1985, $60,000, but with matching funds that increases significantly to more than twice that amount. We have professional firms which, in fact, do programs for us simply because they realize the significance of small business to our society.

Realistically, my intent here is to convey my strong personal conviction that SBA, in some form, cannot be just wiped out. You cannot walk away from that small business sector.

I deal with a lot of individuals that feel that the SBA is only dollars, only loan money. I think that is a shortcoming. I would ask that SBA, in whatever structure they exist in the future, recognize that in addition to the dollars that there are other resources that need to be provided to the small business sector.

In one of our offices out of Kaskaskia College, if we take a look at the dollars that we were able to support the Business Assistance Center there, and we talk about the jobs we were able to create simply through advice, counseling, consultative services, and so on, the jobs that were created had a net cost of less than $500. Now, that is most unusual. I am not saying that is the norm. But, in fact, if we can help small businesses by providing the leverage of the expertise in an area, providing local type of definition, by working with the chambers of commerce, by working with the Manufacturers Association, by getting down to what the community really needs. I think that is the unique thing about the Small Business

Development Centers in the State of Illinois. We are able to work with the community colleges and to uniquely develop programs and assistance for small business.

It is my feeling that if SBA is curtailed excessively, if SBA has their funding cut, the State of Illinois would have to withhold some of their funds that flow to the university and to the community colleges.

In the packet, just to highlight, within the last week's time—I think it is about the fourth or fifth page from the back—there were two situations that occurred. One was a firm that has been in existence for some time. It is Wirco Casting; 80 employees; with technological shifts in our society, they are facing, possibly, abandonment of their operations, or going out of business. They have come to us. They are under pressure from a bank to increase their profitability. Within a week's time, we have been able to develop a panel of experts who will, in fact, work with that firm. That particular firm could not afford to go out and buy private consulting services. If we are able to keep that business in operation, if we are able to preserve those 80 jobs, it will be because we were able to leverage a few dollars from the SBA, the State of Illinois, and others, to work with the resources within the community to keep them going.

Another example on that same page is a new firm. It is a manufacturer and distributor of small trailers. He has his whole heart and soul invested in it, 8 years of work. He came to us in January. We took a look at their product mix, took a look at their cost figures and so on. We are just about through phase 1, trying to tell him what products he should be manufacturing. And he is already asking us, "What else can I do to build my operation?"

I guess what I am doing is downplaying the loans of SBA, and simply suggesting that through the consultative actions, through the information exchange, through the networking, we can build upon the resources in the community. There is a lot that can be done with local initiatives and local leadership.

So if I were to sum up my comments, I would say leverage of Federal dollars; I would say local initiatives with Washington, DC, guidance, because we do use their programs, we do use their educational data, and local leadership to provide additional utility of those resources.

One of the things that we did with regard to trying to tell our story was to ask Mr. Reggie Matthews to come with us. Reggie is our showcase, if you please, a fantastic human being. He is also a very fine manager. And I think we have been able to assist him as a manager.

[Mr. Franke's prepared statement follows:]

PREPARED STATEMENT OF ARNOLD FRANKE, DIRECTOR, SOUTHERN ILLINOIS UNIVERSITY SMALL BUSINESS DEVELOPMENT CENTER, EDWARDSVILLE, IL

PERSONAL DATA

ARNOLD G. FRANKE, Director of the Small Business Development Center and the Faculty Advisor in the Masters of Business Administration program is an Associate Professor of Management and has served in several academic and administrative positions at Southern Illinois University at Edwardsville since 1965. He specializes in general management, labor relations, and business and economic development. Moreover, he has taken an active interest in economic and labor-management affairs having served in a variety of capacities in business, industry, labor, and government since 1960. He is a Captain, U. S. Navy Reserve. He has interacted with professional decision makers on the regional, national and international level. He has published extensively as well as delivered presentations of papers to several business conferences. He is a delegate to the Illinois Conference on Small Business. He serves as a Labor Arbitrator for the American Arbitration Association and the Federal Mediation and Conciliation Service.

SIUE **Southern Illinois University at Edwardsville**

School of Business
Small Business Development Center

The Small Business Development Center (SBDC) Program, sponsored by the U.S. Small Business Administration and the Illinois Department of Commerce and Community Affairs, is a cooperative effort by the state, universities, community colleges, local governments, and the private sector to provide business management techniques and technology to the small business community.

The program is designed to make university and college networks vehicles for the delivery of up-to-date counseling, training, and research assistance in all aspects of small business management.

The Southwestern Illinois SBDC is a cooperative venture involving the Illinois Department of Commerce and Community Affairs, five major educational institutions, local governments, and the private business sector in the region. There are five offices of the Southwestern Illinois SBDC in the fourteen-county region: Belleville Area College, Kaskaskia College, Lewis and Clark Community College, State Community College, and Southern Illinois University at Edwardsville.

Southern Illinois University at Edwardsville -- SIUE — serves as the grant administrator and fiscal agent for the $60,000 in funds approved by DCCA for 1985. Funding for 1984, the initial year of the Southwestern Illinois SBDC, was $40,000. The initial year's grant from DCCA was matched with approximately $77,500 in outlays by the five educational institutions. Projections for 1985 reveal a non-federal matching share of approximately $105,000.

Box 51, Edwardsville, Illinois 62026-1001 (618) 692-2929

Financial resources are used to perform a wide variety of activities to help any of the approximately 17,000 small business firms in the region with start-up, retention and expansion. Small business owners need help in dealing with marketing, production, organization, engineering, and technical aspects. Many small business owners are not informed about available assistance.

Each SBDC has a director who coordinates the efforts of full and part-time personnel. These key individuals in the Southwestern Illinois SBDC offices are:

Arnold G. Franke
Director, Southwestern Illinois SBDC
Box 51, Building II, Room 3315
Southern Illinois University at Edwardsville
Edwardsville, IL 62026-1001
(618) 692-2929

Miles Reynolds
Belleville Area College
2500 Carlyle Road
Belleville, IL 62221
(618) 235-2700

Debbie Chillson
Business/Industry Service Center
Kaskaskia College
Shattuc Road
Centralia, IL 62801
(618) 532-1981

Alexander Mackenzie
Lewis & Clark Community College
5800 Godfrey Road
Godfrey, IL 62035
(618) 466-3411

Henry Campbell
State Community College
601 James Thompson Boulevard
Room 108, SCC Skill Center
East St. Louis, IL 62210
(618) 274-6666

These individuals meet frequently to review and coordinate activities and outline future plans.

The Southwestern Illinois SBDC has a thirty-member advisory council that includes leaders from: Chambers of Commerce, Department of Commerce and Community Affairs, The Growth Triangle Development Corporation, Madison/Bond County Private Industry Council; Marion County Private Industry Council; Riverbend Economic Development Corporation; St. Clair County Private Industry Council; St. Louis Regional Commerce and Growth Association; Service Corps of Retired Executives; South Central Business Development Finance Corporation;

Southwestern Illinois Areawide Business Development Finance Corporation; Southwestern Illinois Development Corridor, Inc.; Southwestern Illinois Leadership Council; Southwestern Illinois Planning Commission; Target 2000; and the Area Development Office of SIUE. The Advisory Council provides input regarding the direction of the SBDC programs and aids in establishing the best way to service small business.

Business has been brisk during the first fifteen months for the Southwestern Illinois SBDC, offering assistance to approximately 1,250 individuals through counseling and information programs offered at the university and at the four community colleges.

Arnold Franke, the Southwestern Illinois SBDC director, said the initial year of funding was a bright beginning. "We look forward to expanding the level of service provided to the region in 1985," said Franke. "One of our strengths is the linkage with economic developers in the area."

For example, said Franke, individuals with complex funding needs have been referred to the Southwestern Illinois Areawide Business Development Finance Corporation, which has experts in government loans. Individuals seeking market data for a particular area could be referred to an appropriate development group such as the Growth Triangle Development Corporation.

"As in many areas, who you know is sometimes as important as what you know," said Franke. "Small business owners don't have time to develop expertise in every area. They cannot keep up with all of the changes in the tax law, for example. We offer counseling in the area; and if necessary, guide individuals toward an expert who can solve the problems."

Training programs were offered to help entrepreneurs/managers and to serve as a promotional device to let individuals know of the Southwestern Illinois SBDC. A total of 460 individuals took part in the following seminars and programs:

- Increasing Your Selling Power
- Building Basic Management Skills
- Promotion for Profit
- Marketing and Sales
- Human Relations in Business Management
- Organizing & Operating a Small Business
- Developing Your Marketing Strategy
- Solar Energy
- Source of Small Business Finance
- Special Problems of Minority Businesses
- Effective Labor Management in Small Business
- Microcomputers for Small Business
- Creative PR for Small Business
- Managing Job Stress
- Successful Holiday Selling
- Assertiveness for Results
- Profitable Direct Mail Marketing
- Dollars and Sense

In addition, a successful industrial fair was sponsored last fall by Kaskaskia College in Centralia. Approximately 290 people attended the Technology Transfer Fair, including Governor James Thompson. State Community College, East St. Louis, co-sponsored Expo '84 for the Greater East St. Louis Businesses; Belleville Area College participated in the Southwestern Illinois Business Fair; and a "Smart Business '85" program directed toward women business owners was co-sponsored by the SBDC.

Future events include the seminar "Managing Your Business for Profit and Growth" to be offered this spring. Laventhol and Horwath, a national accounting and consulting firm with a local office in St. Louis, will be presenting the seminar. The firm is volunteering their service at no cost so as to leverage the SBDC resources even further.

One-on-one counseling also played a major role in helping small businesses. A variety of services such as SCORE, University Faculty, and consultants, etc., were utilized, often with desired results. It is hoped that this type of service will increase significantly in 1985, as it is seen as the most critical area of services. There are at least one hundred and fifty clients who have been served and at least a third of these contacts has a story that can be told — some of success, some of failure — but all are reports of real efforts to begin a business or build the venture for the future.

In projects, the SBDC is nearing completion of its Community Data Packages. Information on population characteristics, income, retail sales, and employment has been collected for 46 communities. This numerical information is being analyzed by the Southwestern Illinois Metropolitan and Regional Planning Commission to help point out trends and simplify interpretations for readers. Once completed, the Community Data Packages will be distributed to area business owners through the local Chambers of Commerce. The packages are being designed to provide business owners with information already compiled by various government organizations to help with marketing, planning, production, and other aspects of business.

In summation, the SBDC helps small businesses in the following areas:

- Information on starting a business
- Marketing information

- Business law information
- Up-to-date tax information
- Information on business finance and formation of capital
- Information regarding production improvement
- Economic and business data analysis
- Minority business assistance

The Southwestern Illinois Small Business Development Center provides services which are essential to the business community. Since three out of four new jobs in the next decade will occur in the small business sector, it is prudent to care for the needs of this very important part of our economy.

The attached article outlines our help with one client, Illinois Filter Manufacturing Corporation.

HILLSBORO COMPANY BEGINS MANUFACTURING WITH SMALL BUSINESS DEVELOPMENT CENTER ASSISTANCE

For entrepreneur Reggie Matthews, the Southwestern Illinois Small siness Development Center offered expertise that he was seeking. tthews, owner of Illinois Filter Manufacturing Corporation in Hillsboro, ad eight years of experience in marketing various types of air filters. ut in August 1984, he decided to expand his business and purchase the necessary equipment to manufacture his own filters.

The newly acquired machinery posed a large challenge because Matthews had no manufacturing experience. In September 1984, he sought help from the Southwestern Illinois Small Business Development Center. Initial consultation with Arnold Franke, director of the SBDC, led to twenty hours of services with consultant Brace Lambert. The two men talked primarily about the new manufacturing operation, but also covered cash budgeting, managerial functions, financial controls, and a detailed business plan.

"At the time, I had no idea how to put on paper what I knew I had to do," said Matthews. "He and I worked together to produce schedules to keep better control of materials and make a breakeven analysis. We covered so many things."

The benefits of this counseling were numerous, said Matthews. "Before, it may have been total chaos," he said. "Now with the production schedules, we plan everything, and I know how long it takes for an item to go from one place to another. When the time comes, we'll be able to handle more people. Brace Lambert and the Small Business Development Center were instrumental in helping me out."

Lambert predicts success for Matthews, whose current target market is air filters for underground coal mines. "He is acceptably aggressive and knows how to create and exploit to the fullest business opportunities," said Lambert. "It was both challenging and educational to work with him."

Matthews plans to manufacture between 5,000 to 6,000 filters per month. He employs five full-time employees and is projecting to have fifteen employees by the end of the year. Without the small business advice, Matthews knows what could have been the consequences.

"The quickest way to go out of business is to take on something you have no concept of," said Matthews. "I learned from experience and the SBDC that it takes good management and planning to develop one's business purpose and operating plans which leads to lines of credit from the bank and new opportunities.

WIRCO CASTINGS, a firm which manufactures grey iron castings, requested assistance from the Southwestern Illinois Small Business Development Center on April 4, 1985. The company is under pressure from its bank to increase profitability by increasing contribution to fixed costs, reduce scrap, and to smooth out production. Wirco employs approximately eighty people and is, therefore, a significant component in the largely rural local economy. If Wirco were to fail, not only would there be a significant impact upon the small town in which it operates; but other areas would be affected as well due to Wirco's creditors suffering considerable losses, or even going completely under themselves.

Within one week, a project team of consultants had been organized, financial statements and cost data had been obtained, and arrangements to visit the plant to observe operations had been made. This surely indicates the efficiency of our SBDC as well as our commitment to small businesses and the impact they have upon the economic community in which they operate.

CIA - AIRFLITE DISTRIBUTORS, a small firm which manufactures trailers (horse, etc.) requested assistance from the Southwestern Illinois SBDC early in 1985. The owner, B. T. Acuncius, identified marketing of products as an area of concern. Dr. Madhav Segal was selected to work with the firm, and initially, product mix and company constraints and limitations was the focus of assistance. Phase I is nearing completion, and the firm is now probing for more information to assist in production and marketing efforts.

SBDC AG APPRECIATION DAY
FINAL REPORT

The Small Business Development Center at Kaskaskia College hosted an "Ag Appreciation" Day March 14 in cooperation with our five county Farm Bureau Associations and the University of Illinois Cooperative Extension Services.

The overall purpose of the day was to promote economic development through a series of business management workshops customized for our agricultural community. With private sector support, a program ranging from basic management skills, technical skills to timely information on legal and banking issues was offered. Approximately 155 individuals attended the workshops.

Local agri-businesses were invited to display their products and company literature. Again, this was an effort to promote buying and selling locally. Thirteen companies exhibited their products.

A very appealing activity throughout the day was tours of the Illinois State Animal Disease Laboratory located on our campus. The new facility opened September 1985, so state of the equipment and techniques in disease research were demonstrated to 120 visitors.

The evening activities were highlighted by a recognition banquet with Julie Unverfehrt, Miss Agriculture serving as Mistress of Ceremonies. State Agriculture Director Larry Werries spoke to over 325 dinner guests concerning the economic health of our ag community.

Throughout the day over 400 people participated in Ag Appreciation Day. We feel that our goal to strengthen our relationship with the agricultural community and offer timely programs to aid in the management of their business were met.

Mr. **Franke**. Reggie.

Mr. **Matthews**. Thank you, Mr. Franke.

TESTIMONY OF REGGIE MATTHEWS, PRESIDENT, FIL-T-KLEEN CO.

Mr. **Matthews**. One of the biggest experiences I have felt in being in a business enterprise—I have been on both sides of the coin——

Mr. **Hayes**. Pull the mike up to you.

Mr. **Mitchell**. As a senior citizen, my hearing is deteriorating. You have to talk into it and project as loudly as you can. You are a little bigger than I am. Little people are loud, anyway. So project a little bit more.

Mr. **Matthews**. I have been on both sides of the coin. I have gotten money from SBA to go into business, and without their help, I would not have been able to go into business. But I feel there is another side of SBA. Like on the first side, I talked about money, I think there is another side of SBA; it is called management. Without cash and without management, you're not going to make it anyway. So I am here to really talk about the management side.

I have been in business going on 8 years. I started out as a service firm. I do a lot of business with coal mining businesses and heavy trucks, agricultural, things of that nature. I always wanted to be a manufacturer because the service part was a dying breed. So last year, I was able to buy out a company; with all my savings that I had saved up, I bought out a firm. Now I am a manufacturer.

So what goes with manufacturing? Management; you have the cash-flow, you have your budget, you have all these different components to manufacture. I did not have that expertise. I had the expertise to know how to produce the product; I knew how to manufacture it. But there are a lot of other things that go along with it. And with the help of the Small Business Development Agency, they came down and gave me a helping hand to put together all the different components that go along with manufacturing, which is how to cost out a project, cost accounting, things like that. I did not have the expertise in that. My expertise is in machinery, producing the product, quality control. Those are my key points. But those other tools, I did not have it. So with their help, we were able to put together a good package to help me produce a really good product. At least I know my costs now, and that is the main thing; making money and knowing your cost. Without their help, I would not be able to sit here today and tell you about it.

So that is my story.

Mr. **Hayes**. Thank you very much. Mr. McConnell.

TESTIMONY OF RICHARD C. McCONNELL, DIRECTOR, ELGIN COMMUNITY COLLEGE SMALL BUSINESS DEVELOPMENT CENTER, ELGIN, IL

Mr. **McConnell**. I would like to take the opportunity to read my statement and then, quite bluntly, put it in layman's terms.

Economic development is a multifaceted and complex activity that must include numerous components, both in the private and public sector. When you look at economic development for small business, you will soon realize that it is just as complex for them as it is for the larger corporations. However, the major difference is that the larger corporations have the resources to deal with this complex problem. The small business community needs a partner, needs a business partner that will provide help to them when needed. This business partner is truly the Small Business Administration. The Small Business Administration fosters the climate for business retention, growth, and expansion for the small business community.

This partnership was greatly enhanced when the leadership of the Small Business Administration—would like to go back and emphasize—the leadership of the Small Business Administration and the Illinois Department of Commerce and Community Affairs developed the Small Business Development Center Program. The Small Business Development Center Program provides Illinois with the opportunity to help its small businesses gain access to management and technical resources that they need to expand and prosper. The implementation of this program, in part, has been the community colleges.

The Small Business Administration, through the Illinois Department of Commerce and Community Affairs, has allowed Elgin Community College participation in the Small Business Development Center Program, and we consider that a privilege that we were picked to be able to do that.

While Elgin Community College has been in the business of assisting small businesses for several years, participation in the Small Business Development Center has enabled a sophistication of programs or programming never before experienced and has resulted in direct benefit to local small business owners and operators.

The small business seminar series—and I took the privilege of putting our brochure in your handout. If you look through that, it really tells the story of what we have been able to do in 3 years.

The small business seminar series has been the backbone for this type of programming. This series is a practical and usable training experience, resulting from constant monitoring and inputs, given by many dedicated groups like your chambers of commerce, professional organizations, the Small Business Administration, and SCORE. We don't want to forget SCORE.

Subject matter content ranges from all important fundamentals, such as how to start your own business and developing a sound business plan, to the sophistication of microcomputers and the small business application.

Experienced, business oriented professionals from the private sector, with technical and philosophical insight, are the type of instructors that successfully guide small business owners and operators in the series.

Without the support of the SBA and the Illinois Department of Commerce and Community Affairs, the range and type of quality services provided to the small business community by Elgin Community College would simply not be possible.

Now, I worked until 10 last night on the microcomputer to do that. Now I want to show you the brochure.

I was asked by the college 3 years ago to come on board to help design and develop programs for the small business community. As a business consultant, and I also own two other businesses, I always thought there was a need to train small business people on how to successfully start and then continue to own, operate, and run their businesses.

The criteria I developed was very simple. You have to get business people, people who own and operate their own businesses to be the instructors, and we did that. We started off with about two or three classes. And as the years wore on and we kept working closer and closer with the Small Business Administration and SCORE and the chambers, we soon realized that our program wasn't even scratching the surface that we had to expand.

If you talk about the Small Business Administration, you ought to look at region 5. That is the region that I deal with. I work with Sam McGrear. There is a model small business area. They really know what they are doing. I will not buy from anybody who says that the Small Business Administration—I have to speak about region 5, because that's the only one I deal with—but they are in tune with the business community. They really know what the needs are. And this partnership that has been developed between the SBA and the State of Illinois, through the Illinois Department of Commerce and Community Affairs, and the community colleges, it is like a triangle. You have the community colleges at the base, you have SBA on one side, and then you have the Illinois Department on the other side.

It is a dynamic program. It is a program that gets the information out into the community; people don't have to be driving all over the State to get the information; and it works and is very cost effective. So I am not going to sit here and say that it is perfect because it is not perfect; nothing is perfect. But the program truly does work. And you subtract out of that program the input from the SBA, the financial input, because the moneys flow from Washington to the States, to the schools, to the instructors, to the students. And I can tell you that people who take our courses, and we have up to 24 courses now; the people who take these courses, who develop this business plan, 80 percent of them will open up their businesses and probably 50 to 60 percent of the people who do that will become successful.

On the other side of the coin, if they do not take courses and they are not taught and they are not motivated, they will fail.

Now, you do not have to have a doctorate degree, a college education, a high school education to take our courses. These are noncredit courses. They are designed, they are written, and they are movitated by instructors who truly can relate to the small business community.

Why I am very excited about this program is because not all small business people relate to the chambers or the other professional organizations, but they are not intimidated by the community colleges. And I am not a full-time community college employee. I own my own businesses. I am under contract to do this for them, and I do this on a part-time basis because my associates all volunteer their time to help me make this program work. We know—listen, small business has been around for a long time, and there is more enthusiasm for it today than there ever has been before. And for someone to say that we do not need the support of the SBA is wrong, terribly wrong.

Thank you.

Mr. **Hayes**. Thank you.

Each of the three witnesses has been very helpful to us.

Mr. Franke, I believe you are the director?

Mr. **Franke**. Yes, sir.

Mr. **Hayes**. Of Southern Illinois University?

Mr. **Franke**. That is correct.

Mr. **Hayes**. And it is the Edwardsville campus?

Mr. **Franke**. That is correct.

Mr. **Hayes**. Which is, as I remember, either the heart of or close to the coal mining community.

Mr. **Franke**. We are on the edge of the coal mining community.

Mr. **Hayes**. Coal mining as an industry, particularly soft coal, has been hard hit in Illinois and unemployment has resulted to a very high degree.

And you, Mr. Matthews, when you said Hillsboro, IL, I almost fell out of my chair. Of course, you have only been there 12 years, as I understood it. I remember having gone through Hillsboro when I could not find a black anywhere.

Mr. **Matthews**. I hear that all the time.

Mr. **Hayes**. You were not the beneficiary of any SBA loan?

Mr. **Matthews**. Yes. I have two.

Mr. **Hayes**. How much, and to what extent?

Mr. **Matthews**. It was $15,000, to start; $25,000, $150,000.

Mr. **Hayes**. Oh, my gosh. How are you in terms of repayment?

Mr. **Matthews**. Well, one is repaid, one is just about finished, and I am working hard on the last one.

Mr. **Hayes**. No default or——

Mr. **Matthews**. No, no.

Mr. **Hayes**. You mentioned in your statement that you have 5 employees and expect to go up to 15.

Mr. **Matthews**. Right.

Mr. **Hayes**. Your training came through the efforts of the Southern Illinois University program, is that right?

Mr. **Matthews**. On the manufacturing part, yes.

Mr. **Hayes**. And you were in the service industry for a while before going into manufacturing?

Mr. **Matthews**. Yes.

Mr. **Hayes**. Mr. McConnell, I just want some explanation of this; you mentioned not being intimidated by the community colleges in terms of the program. Did I understand you wrong, is there any danger of intimidation or anything of that sort?

Mr. **McConnell**. I do not recall saying that. Perhaps I used the wrong word.

The Elgin Community College has always been, in my opinion, a leader in the area of small business training. They are very aggressive and they will go out of their way to foster these programs. But like any other community college or any other organization, there are times when their funding is not readily available. And that is why it is so essential that we continue this partnership between the Federal, and State, and community colleges through the Small

Business Development Center grants. Without that money, we could not have programs as comprehensive as the ones we are having now. As a matter of fact, I have 10 people in the room right now who are learning about how to improve productivity, all small business people. We run a 1-day seminar at $55, and that includes a catered lunch. And I would defy anyone to go to a 1-day seminar for $55 and have a topnotch professional come in who can relate to the audience. And this is why we work so hard at this.

Mr. **HAYES**. So that I clearly understand your position, you are for the continuation of the Small Business Administration, is that right?

Mr. **MCCONNELL**. Yes, sir. I think our program at Elgin Community College would be reduced by a considerable amount if we did not have the financial support and the advisory support of the Small Business Administration. We need their help. We should not disband the SBA.

That is why I say to look at region 5 as a role model because they are very much in tune. And I work very closely with a gentleman, Sam McGrear, who is very much in tune with what the real needs are, and they are doing a very fine job.

Mr. **HAYES**. Mr. Franke, I noticed several weeks ago that the University of Illinois—I think at its Champaign campus—has been selected as a computer center.

Mr. **FRANKE**. Yes, sir.

Mr. **HAYES**. Do you see that as having any real impact in a positive way on the unemployment situation in Illinois?

Mr. **FRANKE**. Very definitely, sir.

Mr. **HAYES**. Would you elaborate a little on that?

Mr. **FRANKE**. We, at Southern Illinois University at Edwardsville, have CAMP, Center for Advanced Manufacturing and Production, which is very similar to the University of Illinois high-technology assistance area. What we hope is that through the Small Business Development Center, through the high-technology centers, by pulling all these resources together in some form of a clearinghouse of information, we can assist industry, the economy, large and small—focusing now on the small—with whatever program they have, whatever problem they have. If it is financing, we can advise them in that area; if it is management, we can assist them there; if it's an engineering problem, we can get into engineering things; or, in fact, if it is marketing or whatever, we can provide that kind of assistance. If it is high technology, robotics, computer science and so on, and need some assistance, it is immediately available. We are able to assist them, to provide information as to how to go about solving problems.

Mr. **HAYES**. Chairman Mitchell.

Mr. **MITCHELL**. Thank you. I have just one question. And thank you, all of you, for your testimony.

I come from Baltimore. One of the oldest and best meat companies is Skruglenberg & Kergle, known as SK. They make ham and sausage and things. They have been in business for years, and then they got into trouble last year. The trouble was that they had not kept up with the pace of new business. They brought in a marketing expert and they spent $150,000 for his advice. They looked at their productivity. I think the consultant fee for the productivity was about $200,000. The city of Baltimore did not want to lose all those jobs, so it tipped in some money to help this SK Co. keep going.

And, Mr. Franke, you helped Mr. Matthews with marketing advice?

Mr. **Franke**. We paid a consultant less than $1,000, as I recall, who came in and provided about—40 hours of assistance?

Mr. **Matthews**. Yes.

Mr. **Mitchell**. OK. And that is $1,000 for the consultant?

Mr. **Franke**. Yes, sir.

Mr. **Mitchell**. What else did you do for him, anything else? Any other consultants?

Mr. **Franke**. Not to this stage of the game. We are talking about what we can do for phase two.

Mr. **Mitchell**. In phase two, do you anticipate some additional consulting costs to help him?

Mr. **Franke**. Yes, sir.

Mr. **Mitchell**. About how much?

Mr. **Franke**. We haven't really figured out how many days. It would depend upon the area of expertise that is required, what is involved; if, in fact, he is talking about increasing employment by several jobs, the amount of commitment will be considerable. If, in fact, we are not talking about jobs, it will be smaller. We try to gear our support based upon jobs in the economy.

Mr. **Mitchell**. Let me play the devil's advocate here, the ornery old man.

Mr. Matthews, you received $150,000 in your last loan. You are paying that off?

Mr. **Matthews**. Yes.

Mr. **Mitchell**. You didn't have to fool with the SBDC. Why didn't you just shop around, take $1,000 out of your pocket and hire yourself a consultant?

Mr. **Matthews**. Well, it wouldn't have been good economics for me.

Mr. **Mitchell**. It would not have been?

Mr. **Matthews**. No.

Mr. **Mitchell**. Why not?

Mr. **Matthews**. Why should I pay a guy $1,000 when I can use their program and——

Mr. **Mitchell**. Oh, I see. It really didn't cost you anything, then?

Mr. **Matthews**. No, it didn't.

Mr. **Mitchell**. OK. I was just playing another role for a minute. The point I am trying to make, really is—and I will cut it short—the average small business guy simply cannot afford to go out and get a marketing consultant, a productivity consultant, or any other kind of consultant. IBM can. Lee Iaccoca has a good public relations image, but when he's in trouble, he goes and pays for what he wants. He brings the guy in, "Here is $50,000; look at this." And that is the benefit, it seems to me, of the SBDC program.

I would stake my life on it, that 95 percent of all small businesses simply cannot afford the kinds of advice and consultant services that you give them.

You are going to make it. You are going to do well. After a while, you are going to be so big that you will grow to the point where you're going to be a part of this consultant firm.

I am proud of the SBDC program, but you have to understand, though you are right that those who fail, fail not because of a lack of initiative or not because of a lack of commitment to have a good business as that's why they went into business in the beginning. They fail because they simply do not have the resources. And I concur with you fully, if the Small Business Development Centers are eliminated, two things will happen. First, one-half of the businesses that are using your services currently are going to fail, 50 percent of them, and second, another one-half of the anticipated new businesses will be prevented from starting-up.

Thank you. Thank you very much. Good luck to you.

Mr. **Hayes**. Thank you, Mr. Chairman.

Congressman Savage.

Mr. **Savage**. Just one question, Mr. Chairman.

I join with the chairman in commending the kind of programs that you are conducting, Mr. Franke and Mr. McConnell. I have one question for Mr. Franke.

I am impressed with the aid your program provided and how relevant it was for Mr. Matthews. But describe what programs you have that are designed specifically to aid black businesses, not just a few individual cases, but as a component of your overall program.

Mr. **Franke**. Yes, sir. In the packet, you will see that we have four locations, in addition to the University. One location is at State Community College in St. Louis. We have minority business programs that are offered out of that center. We do the same type of consulting out of the State Community College office. If, in fact, they do not have the resource or the expert, they call me; I will make reference to individuals they might be able to use. We try to work this on a cooperative basis and use the clearinghouse arrangement among the several centers.

So the kind of resources that we do through the University are available through every community college in our consortium, I suppose. And we do specific programs for minority business and, in fact, give a special management training program for minority contractors under the 8(a) section. We were involved recently in highway construction. We worked with the Illinois Department of Transportation and did a training program that involved cost controls, bidding processes, engineering work, management of the business et cetera, for the minority contractors. Those are the kinds of things we do.

Mr. **Savage**. Let me follow up by asking just how effective this has been. That is, are you able to cite exact or approximate figures regarding benefits to particular black businesses?

Do you understand what I am asking?

Mr. **Franke**. Yes, sir. I'm afraid I don't have anything real specific. We had 35 individuals that were working with the Illinois Department of Transportation. I would say that each and every one of those minority contractors currently is doing business with the Illinois Department of Transportation on highway work right now because of some of the assistance that was provided them.

Mr. **Savage**. Some 35.

Mr. **Franke**. Yes, sir. That is district 8, for the Illinois Department of Transportation.

Mr. **Savage**. Thank you very much.

That is all, Mr. Chairman.

Mr. **Hayes**. Thank you, Congressman Savage.

And I want to say thank you to the panel for their testimony. I have to mention that East St. Louis, which is fairly close to Edwardsville, as you well know, is a very economically depressed area in the State of Illinois. Much of its remaining population is minority, black. I can remember when the meat packing industry used to be a big source of employment in the area. That is no longer in existence. Recovery in the area just has not happened. I certainly know that most of the chances for people to find employment in that area is from small business. I hope that the University will continue to cooperate with those people in that area who are aspiring to get into business. It is necessary for the Small Business Administration to continue to be able to be helpful in the efforts of people trying to combat that catastrophic situation of unemployment that exists in that area.

Thank all three of you very much for your excellent testimony.

Mr. **Mitchell**. Thank you, gentlemen.

Mr. **Hayes**. For the next panel, we might be able to seat six people around the table. If we can, we will put two panels together.

Mr. **Mitchell**. May I make a recommendation?

Let's see how many of the next panel is here.

Mr. **Hayes**. Mr. Wedge, Mr. Parmley; will you come forward please as I call your names? Mr. Peoples. Mr. Jones.

And then I would like, if I could, to include in this panel Mr. Schraidt—I understand he is here—and Mr. Johns, too. After we finish this panel, we will have our lunch break.

We will start with you, Mr. Wedge. Only one of you, I understand, does not have a prepared statement to present to us, and I think that is you, Mr. Schraidt.

Mr. **Schraidt**. I submitted a statement this morning.

Mr. **Hayes**. You did this morning?

Mr. **Schraidt**. Yes.

Mr. **Hayes**. So, we have the benefit of prepared statements from all of you. It might expedite things if you would deal with the highlights of your statement rather than read through the whole statement. However, if you have a pressing desire to read the whole statement, you may, but your whole statement will be entered into the record in its entirety.

Mr. **Mitchell**. And I hope the pressing desire to read the full statement diminishes as the clock ticks. For example, yours, Mr. Schraidt, is rather voluminous.

Mr. **Hayes**. Mr. Wedge.

TESTIMONY OF WESLEY E. WEDGE, PRESIDENT, WEDGE CO., DES PLAINES, IL

Mr. **Wedge**. Mr. Chairman, I will not read the statement in the interest of time.

Just briefly, we are strongly opposed to the cancellation of the agency, for obvious reasons, and certainly agree with what the previous panelists have stated. Our position is pretty much the same.

The Wedge Co. is a small manufacturer of construction equipment, specifically concrete cutting saws, and grinders, and safety drilling machines for the highway and bridge repair and building industry. We started our business in 1968 and we were the recipient of an SBA guaranteed loan in 1971.

Mr. HAYES. Excuse me. Would you pull that mike closer to you? We are all senior citizens.

Mr. WEDGE. Just to repeat briefly, then, the Wedge Co. is a manufacturer of construction equipment, specifically concrete cutting saws, grinders, and safety equipment for the bridge and road repair industry; also, the new construction portion of that industry.

We received an SBA guaranteed loan in 1971 which allowed us to develop a full range of equipment. We were able to develop specialized cutting machines for use on the Illinois Tollway and other State highways and airports around the Nation. At that time when we applied for this financing, none of the banks in our general area were interested in financing our program for expansion. We had started our business, like 60 percent of the others in the industry, with our personal funds and those other interested individuals. But when it comes to expansion and financing your business development, I am no different than some of the others. You go to the banking industry and you ask for assistance, and unless you can give them absolute guarantees that there are risk free chances they are taking, they will finance your program. But for the small businessman, you are really not able to do that. And I think that was the original plan with the SBA in the first place. In 1953, it was an agency that was set up to say to the banker that it is impossible for the small businessman to guarantee the outcome of his program for 8 years ahead, so we are going to come in and we are going to indemnify that, if you will, to support the program.

We paid off our loan in 1980. We did not have any defaults. We had no requests placed for extensions. We were right on time, a perfect, clean record. We became very involved in developing machines for the U.S. military services for their runway and other construction programs. In 1976, there was a major program in the Indian Ocean, the Diego Garcia Program. They had concrete cutting problems that were extensive. We were asked to come in as a consulting team, with the U.S. Navy. We developed a program to build a brandnew machine, and we trained three CB batallions over 2 years to do this work. None of this could have been possible were we not able to obtain an SBA loan in the first place.

After we paid our loan off in 1980, we then encountered another stage in our corporate development, which was last year, when we wanted to expand and develop a new machine. As you all may know, the Gas Tax Program has opened up a whole new horizon for bridge and road repair. There are over 100,000 bridges in the United States that are totally out of spec. I think in the city of Baltimore, one of our dealers over there, Elton Stone, who is very active in developing new techniques in repairing bridges. We have in mind a new machine to do this kind of work efficiently, et cetera. We looked around for financial assistance. Our local bank still did not want to talk to us unless we can guarantee what is going on. We talked to probably half a dozen small banks in our area; nobody wanted to deal with us. So, we approached the people that we know here in region 5, the management assistance group, and they were able to redirect us for a direct loan application. And we have just been the recipient of a new direct loan which will take us through this new stage of development.

I am continuing to be impressed with several areas of the SBA program as it relates to the small businessman. And I am only echoing some of the things that were said here already.

The management assistance group and their program, Sam McGrear and Mr. Ochacarp, Arnold Ochacarp, those people have been extremely helpful to us. They have a program in connection with the Northwestern University Graduate School of Business. Students come out, they act like consultants. We had a group come in in 1978 to help us. They received a national award for their study, and I can tell you that it was outstanding. Those young men were aggressive, they were brilliant; they were able to look into our program. They developed an economic model of our company. The type of consulting help that we got from that organization we could not have afforded in a million years. And I think that is what you made reference to, Congressman Mitchell, and that is absolutely true. We could not afford that type of help.

Today, we are so much better off as a result of the help of those people.

It was interesting to me in our last loan application—I think it was in January—the quality of inquiry on the part of loan officers, the SCORE counselors; it was so much better, in my opinion, than those inquiries on the part of the local banks. These people appear to be, from what we could observe, very interested in what is going on. They want to know a lot of things about your company. It has been charged that they do things haphazardly. I have not noticed that at all. These men in the SCORE Program and the fellows at the loan counselor level, they look into your program very, very intensively, and the type of direction they give you when they start counseling is absolutely excellent.

I think that is the extent of my testimony, and I am ready for questions at a later point.

[Mr. Wedge's prepared statement follows:]

PREPARED STATEMENT OF WESLEY E. WEDGE, PRESIDENT, WEDGE CO., DES PLAINES, IL

It has been said that small businesses are the backbone of this Nation and are the mainstay of many local economies. We wholeheartedly agree. The SBA was created in 1953 to aid the small business community and now, serious consideration is being given to closing it. We strongly object to such a plan!!!

The SBA has been a "Court-of-Last-Resort" for the small business community for so long it has become a part of our culture. Capital formation for the small businessman has been very poor in America and to close the SBA would be like a deathblow for thousands of small companies throughout the country.

Let's face it, two-thirds of the jobs in America and over 60 percent of new innovations come from the small business community. The SBA is a vital part of this community. To close it is like an act of suicide. As a country, we are only hurting ourselves; especially when our foreign competitors are all being helped by their governments.

We have been a previous recipient of an SBA loan which has been paid off for several years. Were it not for that loan and the guidance we have received from Arnold Ochakoff's management assistance program, we wouldn't be in business today. Without SBA participation, local banks wouldn't touch us. They tend to be very insensitive to the small businessman's financial problems.

SBA has done a great job in recent years. They have improved their loss ratios and their lending effectiveness. Also, their people are more conscientious than ever. Why don't we cut back a little on defense and save the SBA.

Mr. HAYES. Thank you, Mr. Wedge. Mr. Parmley.

TESTIMONY OF ROBERT PARMLEY, PRESIDENT, TEMPO 21, INC., WHEELING, IL

Mr. PARMLEY. My name is Robert Parmley. I am the president and cofounder of Tempo 21, Inc., in Wheeling, IL. My purpose here today is to relate to you my experience with the Small Business Administration and of the invaluable impact it has had on my business.

I would like to begin by giving you a brief history of my company. My partner and I served as officers in the Air Force during the Vietnam era. We were fortunate to be able to attend the university in the evenings and earn our master of business administration degree. As our thesis, we developed a concept for a home service company that we called Tempo 21. When we left the Air Force, our professor encouraged us to put our thesis into action. We put in $5,000 of our money and borrowed $16,000 from a friendly Ohio banker and, in January 1972, began our business in the suburbs of Chicago.

Our initial service offering was LawnBeautiful, a fertilization and weed control service for lawns. We did not design, plan, or mow lawns, but simply specialized in keeping them green and weed-free. That first year of 1972 saw us acquire 516 customers and $27,000 in sales, with a total of three people.

By the end of 1975, we had grown to 6,931 accounts and $666,000 in sales. We were, as you might imagine, seriously undercapitalized. These were the years of the Arab oil embargo, quadrupling gasoline, fertilizer, and chemical prices, and of a generally poor economy. We lost money and, in spite of our growth, we were unable to convince bankers of our future in making lawns green when money was so tight. We could not gain the necessary capital to modify our production equipment for greater productivity and to place into motion our marketing plans to expand our business. We did, however, find one bank which had had positive experiences working with the SBA Guaranteed Loan Program. Thus, our first relationship with the SBA was begun.

In January 1976, we borrowed $182,000 for capital equipment and working capital through this local bank under the SBA Guarantee Program.

Our relationship with the SBA was most positive and helpful beyond the obvious financial assistance. During those years, our industry was still in its infancy and equipment was not readily available; that is, we had to modify agricultural equipment for turf usage and build it ourselves. During 1977, we experienced major technical difficulties in the reliability of spraying equipment. Engineers we were not, and the thought of consulting fees was beyond our means. I contacted the SBA and requested the services of SCORE, the Service Corps of Retired Executives. I promptly received on-site assistance from an elderly gentleman, whose engineering experience and genius for creative solutions had not diminished in spite of 80-plus years. In short, he helped us solve our problems at no charge, saving us many hours of trial and error and untold lost dollars.

By the end of 1978, we had repaid our SBA guaranteed loan in its entirety and had broken the million-dollar sales mark with $1,116,000 in sales, 9,847 customers, and 36 employees. We had two offices in the Chicago area and well developed plans for further growth. However, key to that growth plan was a true commitment to one of our original corporate objectives, to provide year-round employment for our people in an industry that has historically been seasonable. In other words, we wanted to avoid winter layoffs so that experienced people were ready to go to work on the first days of spring. However, additional working capital was essential to realize this goal.

Our banker of several years left the bank and, shockingly to us, we found the new officer to be uninterested in our additional business. The economy was again in recession. The bank had not been prospering and it was no longer even interested in the SBA program. We approached other banks with our plan, but were continuously turned away. I could not believe we had worked so hard for 7 years, paid all our bills and our loans and yet be essentially in the same position as when we began.

We approached the SBA with our record and our plan and applied for financial assistance under the direct loan program. With perseverence, many phone calls, and a thorough proposal, we were one of the successful companies to receive the very limited funding. We borrowed $133,000 and grew our business the next year 40 percent, to $1,557,000 in sales and 12,838 customers. In 1981, we opened our third office, and in 1983 our fourth. Today, Tempo 21 services nearly 17,000 accounts, for $2,600,000 in sales, and employs 51 year-round people plus 18 part-time seasonal. Our SBA direct loan is paid back in full and we are adequately financed with a local bank.

I am absolutely convinced that my company would not be here today were it not for the presence of the SBA. When created in 1953, the SBA was charged with assisting small business concerns in obtaining commercial loans which would otherwise not be available from private and commercial sources. Those sources were not available to me and my business in 1976 and 1979. Without the SBA, I probably would have had to close the doors and let my dream of creating an independent company die.

So now the SBA's life is threatened because the Federal budget is out of control. We in business know the pressures you and Congress are under to control the budget deficit. We face these pressures daily, for we could not survive for long even with a budget that is balanced. It takes a reasonable profit to fuel growth and prosperity. Yet, in any organization of people managing resources, there is waste. Tempo 21 and the SBA are certainly no exception, but we each have our role in the economy.

Perhaps the SBA has overgrown itself, but has not outgrown its usefulness. The mandate given it in 1953 still exists today. I know of no other help to small business of the nature and quality of the SBA. There is an old adage that says a banker is one who will lend you money when you don't really need it. It is true; it is a weighing of risks and the small young business is on the heavy side of the scale.

Perhaps the SBA needs better controls to monitor its loan portfolio or better criteria to select companies and banks with which to work. Perhaps the SBA should be more demanding on company principals to guarantee loans with personal assets, such as their homes, just to be sure that the real commitment to the business is there. Or perhaps the direct loan program should be at bank interest rates rather than below, thereby removing the low-interest incentive for loan application, and making the direct loan a truly last resort financing. I have not taken the time to study the alternatives available to Congress, but I do believe that a profound negative impact will be felt on the American economy if it were to lose the friend of small business, the SBA.

Small business in America is the heart of the economy that made our country the most comfortable place to live on this planet. I am certain that someone could prove me correct when I state that the most innovative, creative, and inventive ideas come not from our conglomerates and multinational enterprises, but from the basements, garages, and small business offices of hard-working Americans trying to make a living. We employ more people and pay more taxes as a group, than large businesses put together.

The SBA has helped my company survive, and I hope that in my small way I repay that debt and help the SBA to survive.

Thank you.

Mr. **Hayes**. Thank you, Mr. Parmley. Mr. Peoples.

TESTIMONY OF WILLIAM H. PEOPLES, PRESIDENT, W. MAR-D-NITA ENTERPRISES

Mr. **Peoples**. Good afternoon, Mr. Chairman, members of the committee. My name is William Peoples, and I am an owner of two McDonald franchises, with a third franchise under construction. It is scheduled to open in July 1985. I am also vice president of the National Black McDonald's Operators Association, Chicago chapter.

My wife and partner, Diane, and I became fast food operators in October 1979, after working in the private and public sector of 17 years. We bought our first franchise with our life savings and the assistance of the SBA guaranteed bank loan and the Urban Fund. The Urban Fund and Combined Opportunities provided equity that we did not have.

My wife and I have since repaid our bank loan. We did this at an accelerated rate, when interest rates began to soar in 1981. We have repaid over 80 percent of our first MESBIC loan. However, thanks to the terms of the Urban Fund loan, we did not get caught in a financial crunch. Our loan was very long term and the interest rates were very reasonable. Thanks to Urban Fund and Combined, we could not have done it without them.

My wife and I are full-time working partners, and we employ 100 to 140 employees, most of whom are minority teenagers that come from neighborhoods that are experiencing 50-percent teenage unemployment. With the training and discipline that the teenagers receive as our employees, we feel they are enhancing their economic, social, and psychological growth. We believe that a great percentage of them will continue to aspire to the American dream and will become a contributing and integral part of our total society.

Our corporation, two stores, has paid approximately $784,000 in various taxes to Federal, State, and local agencies. We are proud and grateful that we can pay taxes instead of being on the receiving end of these tax resources.

As late as 1968, the first black was granted a McDonald's franchise. Blacks and many other minorities to date are still not assimilated economically into the American melting pot. We desperately need every economic advantage available to keep pace with the expanding growth of our country.

A greater surge of minority McDonald's and other fast food operators has emerged since 1976, 8 years after the first black was granted a McDonald's franchise. Many of my business peers are recipients or have been receipients of SBA guaranteed bank loans and MESBIC investments. The loans have been the basis for our success and, in some cases, have averted financial disaster.

We applaud and support the deficit reduction, but we implore the Congress to leave the SBA as an agency and to preserve the MESBIC program.

Minorities are finally beginning to reach a position in life that will enable us to leave a social and economic legacy to our common generations.

My involvement in these hearings today is to make you, our Representatives in the U.S. Congress, more aware of how we, minority entrepreneurs, view the MESBIC program, our only source of venture capital or seed money.

Before I received financing from the SBA and the urban fund, I approached three other lending institutions, and was turned down cold and immediately. I had limited options available to me. In many areas, SBA loans and MESBIC investments are the only financing that many minorities are going to get. If you take away the SBA and the MESBIC, you take away about the only reliable source of financing for minorities in business.

The last real push for minority business development came about in the late 1960's immediately after the riots at the time of Dr. Martin Luther King's assassination. While we should not need riots to bring about change, minorities have made some limited progress over the last 15 years. Why should the Government want to reverse or retard that progress?

MESBIC is a crucial player in minority business development. They have proven their worth.

Please preserve them.

Thank you Mr. Chairman and members of the committee, for the opportunity to express my views regarding the SBA and especially MESBIC's. If there are any questions, I will be happy to answer them.

Thank you.

Mr. HAYES. Thank you, Mr. Peoples. Mr. Jones.

TESTIMONY OF E. PATRIC JONES, PRESIDENT, THE URBAN FUND OF ILLINOIS, INC.

Mr. Jones. Good morning, Mr. Chairman and members of the committee. I am E. Patric Jones, president of the urban fund here in Chicago. I am also a director of the American Association of MESBIC's and chairman of its legislative committee.

It is a real pleasure for me to be here this morning, accompanying Bill Peoples. Bill Peoples is an entrepreneur in whom we invested, and he is a raving success story. That is what our program is all about, presenting an opportunity.

On several other occasions, I have had the pleasure of discussing the MESBIC industry with this committee. You, personally, Chairman Mitchell, and other members of the committee have consistently been supportive of our efforts to develop substantial minority businesses. On behalf of our association's more than 130 members and our hundreds of portfolio companies, thank you very much, Mr. Chairman.

As you well know, this administration, primarily through Mr. Stockman, is determined to eliminate the SBIC and MESBIC programs. We simply cannot allow that to happen.

As Bill has indicated, MESBIC's represent the only source, the only source of equity capital or business development capital for minority businesses in this country. Whether that source be Government or private, it is the only source. Without MESBIC's, the only other source of financing for minority business is the commercial bank where basic lending criteria often preclude loans to minority businesses. Most young businesses and minority businesses, in particular, cannot meet stringent collateral requirements; they cannot survive market interest rates, and they cannot often survive short-term repayment schedules. Elimination of the MESBIC program will, in my opinion, deal a devastating blow to the growth of minority business.

Ours is a unique program, where private, not Government dollars, are first at risk. Presently, private sources have to come up with 1 million in capitalization before a MESBIC license is granted. The effectiveness and success of the MESBIC program is easily quantifiable. In 1984, we invested some $89 million in more than 1,000 small businesses. Since 1976, we have invested a total of $392 million in socially or economically disadvantaged entrepreneurs. According to SBA statistics, in 1984, MESBIC's were responsible for creating or maintaining 8,470 jobs. Since 1977, we have helped to create or maintain over 75,000 jobs. Since 1978; our invested companies, our portfolio companies have generated Federal and State revenues in excess of $487 million. We are alone in financing new business opportunities for minorities. Thanks to our program, we now have minority business people represented in industries where, just a few years ago, there were no other minorities.

MESBIC's have invested in over 75 percent of the minority owned communications and telecommunications properties across the United States. We financed a majority of minority owned cable companies throughout the United States. We are constantly expanding existing businesses and creating new business opportunities for minorities.

If approved, the administration's plan will, in my opinion, seriously cripple continued growth of minority businesses.

Thank you very much.

Mr. **Hayes**. Thank you very much. Counsel Schraidt.

TESTIMONY OF JAMES A. SCHRAIDT, GENERAL COUNSEL, ILLINOIS DEVELOPMENT FINANCE AUTHORITY

Mr. **Schraidt**. With your permission, I believe I will just read this statement this morning. Although you do have quite a stack of material in front of you, my remarks cover really only the first three pages, so I think I can sail through it.

I am Jim Schraidt, the general counsel for the Illinois Development Finance Authority. The development finance authority is the successor to the Illinois Environmental Facilities Financing Authority. It is an issuer of tax exempt revenue bonds for industrial and commercial development, pollution control and solid waste disposal projects. In addition, we administer a direct loan program and other financing programs for Illinois businesses.

I am here today on behalf of both the authority and its executive director, Ronald Bean, who is the president of the Council of Pollution Control Financial Agencies. I have provided you with a copy of Mr. Bean's statement, which he delivered on behalf of the council before the Senate Committee on Small Business, in February. I commend it to you as a definitive statement of the council's position on SBA guaranteed tax exempt pollution control bonds. Rather than repeat Mr. Bean's testimony this morning, I propose to briefly describe to you the authority's experience with the SBA guaranteed program and the difficulties caused by its elimination in 1981.

Attached to your copy of my statement is a listing of pollution control bonds issued by the authority. The bonds listed in the column entitled "Small Business for the Years 1977 Through 1981" are exclusively SBA guaranteed tax exempt.

Dollar amounts of the projects financed range from a low of $120,000 to a high of $1 million. I would add at this point that the authority has extensive experience in issuing tax exempt revenue bonds, and I have never seen a stand-alone financing with revenue bonds for less than $400,000. So these numbers really demonstrate that pollution control financing under the SBA program is reaching out and reaching down to small businesses with pollution control financing needs.

The close of 1981, the authority had a backlog of approximately $49 million in pending small business projects. Authority records reflect that, due to the elimination of SBA guarantees, at the close of 1981, none of those projects went forward with tax exempt financing. Since then, the authority has closed only three financings which could be considered small business pollution control, one in each of 1982, 1983, and 1984. Two of these financings were in the amount of $1 million and the other was in the amount of $500,000. None of these three companies was able to access the public markets and each of these bonds was privately placed.

A couple of years ago, the SBA proposed a taxable program. We have found that this program, this proposed program does not meet the needs of small businesses seeking pollution control financing. The authority contacted several people who were members of the backlog, which I just described, and, in each case, the taxable program was rejected by these applicants as being too costly. Our records indicate that this experience is consistent with the experience of other financing authorities throughout the country.

The State has also initiated programs to try and assist with pollution control for small business. Through the authority, the State of Illinois has initiated a pooled bond program to assist small businesses. It utilizes a local letter of credit, supported by a master letter of credit, which is backed by a limited pool of State funds, to provide credit support. This credit support is necessary for the pooled bonds to access the public capital markets. Early experience is indicating to us that this program is not well suited to pollution control projects, primarily due to the nature of the assets that are financed. That is, they are largely nonproductive and they have poor collateral value. Consequently, applicants are having difficulty in obtaining the local letter of credit. We would note, however, that the SBA Guaranteed Program, in a sense, served as a model for State-supported programs in that they developed the pooled financing concept, the insured pool concept, and we would note that even a limited SBA guarantee, even more limited than what was available before, could possibly be combined with State programs such as ours and leverage Federal funds to meet the pollution control financing needs of small businesses.

In conclusion, we feel that our experience, as I have outlined, demonstrates: First, that the SBA program was effective in overcoming problems peculiar to small business pollution control financing, specifically small sized projects, poor collateral value and limited productivity, increases associated with the type of equipment that is financed, and unacceptability of small business credit in public markets. This permitted the small companies to access the public tax-exempt markets. Second, we demonstrated that demand for small business pollution control financing continues at a high level. Third, we've shown that new and proposed programs have not effectively filled the void left by the discontinuance of the SBA Guaranteed Program.

On behalf of the authority, I thank you for this opportunity to support reestablishment of the SBA Guaranteed Program for small business tax-exempt financing.

[Attachments to Mr. Schraidt's testimony follow:]

idfa

Illinois Development Finance Authority

2 North LaSalle Street
Suite 780
Chicago, Illinois 60602
(312) 793-5586

ENVIRONMENTAL BONDS ISSUED BY IEFFA--CALENDAR YEAR

Calendar Year	Total Amount	LARGE Businesses	No.	SMALL Businesses	No.
1973	$ 6,540,000	$ 6,540,000	1	$ --	--
1974	62,105,000	62,105,000	6	--	--
1975	87,457,000	87,400,000	5	57,000	1
1976	20,475,000	20,475,000	4	--	--
1977	149,685,000	148,570,000	6	1,115,000	5
1978	51,110,000	49,300,000	4	1,810,000	4
1979	153,500,000	153,500,000	6	--	--
1980	167,736,000	155,201,000	12	12,535,000	14
1981	29,870,000	24,040,000	3	5,830,000	6
1982	65,150,000	64,150,000	5	1,000,000	1
1983	183,400,000	182,400,000	4	1,000,000	1
1984	187,700,000	187,200,000	5	500,000	1
TOTAL:	1,164,728,000	1,140,881,000	61	$ 23,847,000	33

STATEMENT
OF
RONALD BEAN
PRESIDENT
COUNCIL OF POLLUTION CONTROL FINANCING AGENCIES
AND
EXECUTIVE DIRECTOR
ILLINOIS ENVIRONMENTAL FACILITIES FINANCING AUTHORITY
ON BEHALF OF THE
COUNCIL OF POLLUTION CONTROL FINANCING AGENCIES
BEFORE THE
THE SENATE COMMITTEE ON SMALL BUSINESS
U.S. SENATE
WASHINGTON, D.C.
FEBRUARY 28, 1985

Mr. Chairman, Members of the Committee, I am Ron Bean, President of the Council of Pollution Control Financing Agencies. The Council is a non-profit organization formed by local and state agencies which serve as issuers of tax-exempt financing for pollution control and solid waste facilities. The Council includes associate members from the financial, legal and industrial sectors. Council members have been active in supporting the availability of tax-exempt financing as an important part of the nation's effort to achieve environmental goals and foster economic development.

On behalf of the Council, I welcome the opportunity to provide the Committee with our views on SBA's Pollution Control Loan Guarantee Program to assist small businesses in achieving vital pollution abatement goals.

Mr. Chairman, as you and others on this Committee know so well, efforts to assist small businesses in complying with environmental laws have been consistently undermined by strong Administrative opposition to this SBA program. This systematic and continuing Administrative assault on this program, beginning December 31, 1981, places the Council and other strong supporters in a difficult position. We have not been able to add substantially to the record of achievement since 1981, given OMB's directive denying the use of guarantees for tax-exempt financed projects. The availability of tax-exempt financing is the most important tool available to assist small businesses through the SBA guarantee program.

I would like to recap briefly some of the background leading up to Committee consideration of S. 408. As I noted before the Administration issued a directive on December 31, 1981 that precluded the Small Business Administration from entering into pollution control loan guarantees commitments utilizing tax-exempt financing. At the time of this action, SBA had $250 million in FY 82 authorization and had provided guarantees on a tax-exempt basis totaling approximately $39.6 million. The Office of Management and Budget had additionally directed the SBA to limit any further guarantee commitments to $150 million with the stipulation that any new guarantees would be for taxable loans. Congress in its continuing appropriations resolution directed that this program, at a minimum, be maintained at a level of $175 million. Unfortunately, OMB maintained the freeze on tax-exempt guarantees ignoring Congress' intent and disregarding the history and purpose of this critical program.

In 1983, this Committee took the necessary action to reverse this unfortunate set of events, reporting to the Senate S. 2408, mandating the provision of Pollution Control Loan Guarantees for tax-exempt financings. Unfortunately, the Senate was unable to consider this legislation prior to the conclusion of the 97th Congress and the Administration prohibition remained in effect. This Committee again responded by strong efforts to return the guarantee program to its original purpose.

Because that effort did not succeed, many businesses have been forced to abandon efforts to finance the acquisition of pollution control equipment required to comply with the Nation's environmental mandates and regulations. Not only has the environment suffered, but the economy as well.

During this period, we learned that the Pollution Loan Guarantee for taxable financings is not a realistic option. It forced a heavier burden of pollution control financing upon the shoulders of businesses least capable of acquiring the necessary capital.

As evidence of the lack of enthusiasm for the taxable guarantee alternative as a viable option, I draw your attention to the response SBA received following its retroactive policy change concerning the termination of the tax-exempt program. SBA notified over 100 businesses to either switch to the taxable guarantee route or face withdrawal of their applications. In response just one firm out of this total notified SBA of its desire to seek a taxable guarantee. Clearly, the large majority of these companies believe, as CPCFA does, that the costs become prohibitive under the taxable guarantee option.

As you know, Congress specifically mandated tax-exempt issue guarantees in Public Law 94-305. On several occasions in 1983, Congress reconfirmed its commitment to tax-exempts and advised SBA to make these guarantees available. Despite these Congressional directives, the SBA and this Administration continues to thwart Congress' intent.

With this background, we now look to 1985 with renewed anxiety. Before this Committee is the Administration's proposal to eliminate SBA along with all of its investment programs, including the Pollution Control Loan Guarantee Program. Before the Finance Committee, we expect the Administration to pursue the elimination of all tax-exempt private activity bonds under the banner of tax reform.

Mr. Chairman, your bill, S. 408, recognizes that many of these proposals have less to do with the achievements of these programs and "true costs" to the U.S. Treasury and more to do with an overriding desire to shrink government involvement in solving important national problems. This basic tendency to flatly discount the problems small businesses confront in addressing key national economic and environmental objectives serves no national purpose.

Last October your efforts proved successful with the enactment of Public Law 94-473, specifically overriding the Administration's directive. Since that time, CPCFA members have been working with small businesses to assist their efforts to apply for FY 1985 guarantee authority. At this time, SBA is now reviewing applications as a result of the legislative changes enacted late last year.

Complicating this effort initially has been the enactment last year of the Deficit Reduction Act and its numerous changes affecting tax-exempt financing for these projects. As you know, included in these changes was the imposition of a state bond limitation on tax-exempt private activity bonds. On one hand, we have been working to get the SBA program back on track, and at the same time we must also respond to new requirements for the issuance of tax-exempt bonds to finance these important projects.

It should be emphasized that SBA's Pollution Control Guarantee Program has resulted in virtually no cost to the federal government. The limited costs associated with tax-exempt financings to support these projects is an issue that will soon be considered by the Finance Committee and the Committee on Ways and Means. I would urge Members of this Committee to assert your interest in the debate on tax-exempt bonds for pollution control facilities and other areas of bond activity benefitting small businesses.

In my own state, I serve as Executive Director of the Illinois Environmental Facilities Financing Authority and as Executive Director of the Illinois Development Authority. In both capacities, I work with IDBs and I am very familiar with this importance of the financing tool in assisting the efforts of small businesses. In Illinois, we just launched a major new initiative to provide $70 million in loans specifically designed to meet the needs of small businesses throughout the state.

Mr. Chairman, let me conclude my testimony with strong endorsement of S. 408 and its provisions to extend SBA's Pollution Control Guarantee Program through FY 1988. The level of guarantee authority will allow these important pollution control projects to continue in future years. As our members add to the record on this program throughout this fiscal year, CPCFA will share this information with the Committee to assist your future deliberations.

On behalf of CPCFA members, I appreciate this opportunity to express our views on this important program.

COMBINED OFFICIAL STATEMENT

In the opinion of Messrs. Chapman and Cutler, Chicago, Illinois, Bond Counsel, based on existing statutes, regulations, court decisions and rulings, interest on the Bonds of each issue will be excludable from the gross income of the recipients thereof for Federal income tax purposes except in the circumstances described under the heading "Tax Exemption" herein.

$1,115,000
Illinois Industrial Pollution Control Financing Authority
Pollution Control Revenue Bonds
Small Business Series 1977

CONSISTING OF THE FOLLOWING FIVE SEPARATE NEW ISSUES

$260,000
(Coverall Laundry Service, Inc. Project)

$175,000
(H. Kramer & Co. Project)

$315,000
(Cosmopolitan Textile Rental Service, Inc. Project)

$260,000
(G. B. Rewashed Wipers, Inc. Project)

$105,000
(Circuit Systems Inc. Project)

FOR EACH SEPARATE ISSUE THE BONDS WILL BE:

Dated: December 1, 1977 **Due: December 1 of the years shown below**

Each issue of Small Business Series 1977 Bonds will be used to provide funds to one of five small business enterprises (collectively the "Companies") for the acquisition, construction and installation of pollution control facilities. The Bonds of each issue will be limited obligations of the Illinois Industrial Pollution Control Financing Authority and, except to the extent payable out of Bond proceeds or the income from the temporary investment thereof, will be payable solely from and secured by a pledge of revenues to be derived by the Authority from each Company pursuant to an Installment Sale Agreement.

The obligations of each Company under each Installment Sale Agreement to make payments sufficient, in the aggregate, to pay the principal and interest on the Bonds will, pursuant to Section 404(b)(2) of the Small Business Investment Act of 1958, as amended, be:

GUARANTEED BY THE
UNITED STATES SMALL BUSINESS ADMINISTRATION

and the General Counsel of the United States Small Business Administration will deliver an opinion that the full faith and credit of the United States are pledged to the obligations of the Small Business Administration set forth in such guarantees.

Neither the faith and credit nor the taxing power of the State of Illinois or the United States of America is pledged to the payment of the principal of or interest on the Bonds of any issue.

COMBINED AGGREGATE $415,000 SERIAL BONDS

Amount	Due December 1	Coupon Rate	Price	Amount	Due December 1	Coupon Rate	Price
$20,000	1978	3.70%	100%	$40,000	1983	4.30%	100%
40,000	1979	3.85	100	50,000	1984	4.40	100
35,000	1980	4.00	100	55,000	1985	4.50	100
35,000	1981	4.10	100	50,000	1986	4.55	100
40,000	1982	4.20	100	50,000	1987	4.60	100

COMBINED AGGREGATE $700,000 5.20% TERM BONDS DUE DECEMBER 1, 1997 AT 100%

Depending upon amounts purchased, the purchase of Bonds of any particular maturity may involve the purchase of Bonds of more than one of the the five separate issues herein described.

The Underwriter's discount is 2% per bond, aggregating $22,300.

The Bonds of each issue will be offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter and subject to the approval of legality by Messrs. Chapman and Cutler, Chicago, Illinois, Bond Counsel, and certain other conditions. It is expected that the Bonds of each issue in definitive form will be available for delivery on or about December 29, 1977 in Chicago, Illinois.

The First National Bank of Chicago

Dated: December 9, 1977.

APPENDIX A

THE PROJECTS AND THE COMPANIES

The information contained in this Appendix has been obtained by the Authority from the Companies named herein, but the statements made in this Appendix should not be construed as a representation or warranty of the Authority or the Underwriter.

Coverall Laundry Service, Inc.

Coverall Laundry Service, Inc. ("Coverall") was founded in 1946 and incorporated under Illinois law in 1947. Coverall operates from facilities located at 3715 North Ashland Avenue, Chicago, Illinois 60613. The Company has been privately owned by the same family since its incorporation.

Coverall is an industrial rental laundry with a particular expertise in supplying items to companies engaged in food production enterprises. Coverall employs about 70 persons and is actively managed by the family which has owned it since its inception.

The Project is designed to enable Coverall to comply with wastewater discharge requirements of the Metropolitan Sanitary District of Greater Chicago. The estimated cost of the Project is $226,000. The Project will entail installation of a clarification unit, pumps, piping, gauge, valves, saturation tank, filtering, and housing for the pollution control unit. Certain pollutants generated by Coverall's laundering process will be eliminated from the water discharged into the sanitary system.

Henry Jankowicz, Esq., Chicago, Illinois, counsel to Coverall, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

H. Kramer & Co.

H. Kramer & Co. ("Kramer") is a smelter and refiner of copper and bronze scrap. Kramer has headquarter offices at 1345 West 21st Street, Chicago, Illinois 60608, and a branch operation in El Segundo, California. The Company was established in 1888, incorporated in Illinois in 1904, and is privately owned by the officers and directors, their families, certain employees and others.

Kramer produces brass and bronze ingots, and special alloys, which are sold to brass foundries which manufacture items for consumption in the plumbing, heating, transportation, communication, machinery and farm equipment industries. Kramer employs approximately 240 persons.

The Project is designed to bring the Company into compliance with rules and regulations of the Metropolitan Sanitary District of Greater Chicago. The estimated cost of the Project is $152,000. The Project will enable the Company to eliminate the discharge of wastewater by means of a closed recycle system.

Arthur M. Oppenheimer, Esq., Chicago, Illinois, counsel to Kramer, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

Cosmopolitan Textile Rental Service, Inc.

Cosmopolitan Textile Rental Service, Inc. ("Cosmopolitan") is an Illinois corporation primarily engaged in the laundering and renting of various cloths with a particular expertise in supplying items to the restaurant industry.

Cosmopolitan has its headquarters at 5730 South Halsted Street, Chicago, Illinois 60621. It also has a plant in Kankakee and a branch sales office in Gary, Indiana. Cosmopolitan was founded in

1939 and incorporated in 1972. It has been under the ownership and active management of the same family since its inception. Cosmopolitan employs approximately 172 persons.

The proposed Project is designed to enable Cosmopolitan to comply with wastewater discharge requirements of the Metropolitan Sanitary District of Greater Chicago. The estimated cost of the Project is $274,000. The Project will entail installation of a clarification unit, storage tanks, holding pit, piping, pumps, and a vacuum filter. Pollutants generated by the Company's laundering process will be eliminated from the water discharged into the sanitary system.

Nicholas Limperis, Esq., Chicago, Illinois, counsel to Cosmopolitan, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

G. B. Rewashed Wipers, Inc.

G. B. REWASHED WIPERS, INC. ("G. B. Rewashed"), doing business as Standard Rewashed Wipers Co., is an Illinois corporation located at 3124 South Shields Avenue, Chicago, Illinois 60616. G. B. Rewashed is primarily engaged in the sale and laundering of cleaning cloths and the laundering of shop towels.

The Company was founded in 1917 and was incorporated in 1965. G. B. Rewashed has been owned by its current chief executive officer since 1975. The Company employs about 65 persons.

The Project is designed to enable G. B. Rewashed to comply with wastewater discharge requirements of the Metropolitan Sanitary District of Greater Chicago and will cost an estimated $226,000. The Project will entail installation of a clarification unit, pumps, piping, gauge, valves, saturation tank, filtering, and housing for the pollution control unit. Pollutants generated by G. B. Rewashed's laundering process will be eliminated from the water discharged into the sanitary system.

John B. Wheeler, Esq., Chicago, Illinois, counsel to G. B. Rewashed, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

Circuit Systems Inc.

CIRCUIT SYSTEMS INC. ("Circuit Systems") is an Illinois corporation located at 138 West Home Avenue, Villa Park, Illinois 60181. Circuit Systems was founded and incorporated in 1968 by its current owners. The Company is primarily engaged in the manufacturing of printed circuit boards and employs about 60 persons.

The Project is designed to enable Circuit Systems to comply with wastewater discharge requirements of the Salt Creek Drainage Basin Sanitary District. The proposed Project will cost an estimated $91,000 and will involve the installation of a demineralization system for the Company's wastewater, allowing the recycling of waters after metallic contaminants have been removed.

Pyes & Cherin, Chicago, Illinois, counsel to Circuit Systems, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

COMBINED OFFICIAL STATEMENT

RATED: Moody's: Aaa

In the opinion of Messrs. Chapman and Cutler, Chicago, Illinois, Bond Counsel, based on existing statutes, regulations, court decisions and rulings, interest on the Bonds of each issue will be excludable from the gross income of the recipients thereof for Federal income tax purposes except in the circumstances described under the heading "Tax Exemption" herein.

$1,810,000

Illinois Industrial Pollution Control Financing Authority

Pollution Control Revenue Bonds
Small Business Series 1978 A

CONSISTING OF THE FOLLOWING FOUR SEPARATE NEW ISSUES

$265,000 (Nauvoo Milk Products, Inc. Project)	$615,000 (K.A. Steel Chemicals Inc. Project)
$775,000 (Peoria Disposal Company Project)	$155,000 (Surftec Enterprises, Inc. Project)

FOR EACH SEPARATE ISSUE THE BONDS WILL BE:

Dated: July 1, 1978 **Due: July 1 of the years shown below**

Each issue of Small Business Series 1978 A Bonds will be used to provide funds to one of four small business enterprises (collectively the "Companies") for the acquisition, construction and installation of certain pollution control facilities. The Bonds of each issue will be limited obligations of the Illinois Industrial Pollution Control Financing Authority and, except to the extent payable out of Bond proceeds or the income from the temporary investment thereof, will be payable solely from and secured by a pledge of revenues to be derived by the Authority from each Company pursuant to a Loan Agreement, and as otherwise provided in the Indenture.

THE OBLIGATIONS OF EACH COMPANY UNDER EACH LOAN AGREEMENT TO MAKE PAYMENTS SUFFICIENT, IN THE AGGREGATE, TO PAY THE PRINCIPAL OF AND INTEREST ON THE RELATED ISSUE OF 1978 A BONDS WILL, PURSUANT TO SECTION 404(b)(2) OF THE SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED, BE GUARANTEED BY THE UNITED STATES SMALL BUSINESS ADMINISTRATION.

The General Counsel of the United States Small Business Administration will deliver an opinion that the full faith and credit of the United States are pledged to the obligations of the Small Business Administration set forth in such guarantees.

Neither the faith and credit nor the taxing power of the State of Illinois or the United States of America is pledged to the payment of the principal of or interest on the Bonds of any issue.

Amount	Due July 1	Coupon Rate	Price	Amount	Due July 1	Coupon Rate	Price
$ 40,000	1979	4.50%	100%	$ 95,000	1989	5.50%	100%
60,000	1980	4.70	100	80,000	1990	5.60	100
55,000	1981	4.80	100	105,000	1991	5.65	100
60,000	1982	4.90	100	105,000	1992	5.70	100
75,000	1983	5.00	100	105,000	1993	5.75	100
65,000	1984	5.10	100	115,000	1994	5.80	100
70,000	1985	5.20	100				
70,000	1986	5.25	100				
85,000	1987	5.30	100				
80,000	1988	5.40	100	545,000	1998	6.00	100

Depending upon amounts purchased, the purchase of Bonds of any particular maturity may involve the purchase of Bonds of more than one of the the four separate issues herein described.

The Bonds of each issue will be offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter and subject to prior sale, to withdrawal or modification of the offer without any notice and to the approval of legality by Messrs. Chapman and Cutler, Chicago, Illinois, Bond Counsel, and certain other conditions. It is expected that the Bonds of each issue in definitive form will be available for delivery on or about July 31, 1978 in Chicago, Illinois.

The First National Bank of Chicago

Dated: July 25, 1978

APPENDIX A

THE PROJECTS AND THE COMPANIES

The information contained in this Appendix has been obtained by the Authority from the Companies named herein, but the statements made in this Appendix should not be construed as a representation or warranty of the Authority or the Underwriter.

Nauvoo Milk Products, Inc.

Nauvoo Milk Products, Inc. ("Nauvoo Milk Products") is an Illinois corporation located in Nauvoo, Illinois 62354. Nauvoo Milk Products is primarily engaged in the manufacture and sale of blue cheese.

The Company was founded in 1937 and incorporated in 1945. Nauvoo Milk Products is a family owned and operated business. The Company employs approximately 70 persons.

The Project is designed to enable the Company to comply with certain waste treatment regulations of the City of Nauvoo. The Project will allow the Company to properly dispose of liquid whey, a by-product of cheese manufacturing. The Project includes the installation of a hyperfiltration system, holding tank, and necessary pipes and pumps. Estimated total cost of the Project is $230,000.

Schmiedeskamp, Robertson, House, Neu and Mitchell, Quincy, Illinois, counsel to Nauvoo Milk Products, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

Peoria Disposal Company

Peoria Disposal Company ("Peoria Disposal") is a Nevada corporation located at 1113 N. Swords Avenue, Peoria, Illinois 61604. Peoria Disposal operates a sanitary landfill at Pottstown, Illinois. The Company has been primarily engaged in the business of collecting, hauling, and disposing of solid wastes since 1928. Since 1972, the Company has also been engaged in the business of pumping, hauling, and disposing of liquid wastes.

Peoria Disposal is primarily owned by its two chief operating officers. The Company employs approximately 42 persons.

The Project is designed to enable the Company to comply with certain waste treatment regulations of the Greater Peoria Sanitary District. The Project will allow the Company to properly dispose of its liquid waste intake through certain pre-treatment facilities. The estimated total cost of the Project is $679,000.

Sutkowski & Washkuhn Assoc., Peoria, Illinois, counsel to Peoria Disposal, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

K.A. Steel Chemicals Inc.

K.A. Steel Chemicals Inc. ("K.A. Steel") is an Illinois corporation located at 2700 River Road, Des Plaines, Illinois 60018. K.A. Steel is primarily engaged in the business of manufacturing, distributing, packaging, storing, and delivering chemicals. The Company operates facilities in Lemont, Illinois and Gary, Indiana.

The Company was founded and incorporated in 1953 and is a family owned and operated business. K.A. Steel employs approximately 18 persons.

The Project is designed to enable K.A. Steel to comply with certain environmental control regulations of the Illinois Environmental Protection Agency concerning the handling of corrosive chemicals. The Project consists of a waste water treatment facility to pre-treat the Company's waste water and neutralize hazardous chemicals, and the construction of dikes (concrete berms) to enclose areas which contain holding tanks for corrosive chemicals. The estimated total cost of the Project is $537,570.

Lieberman, Levy, Baron & Stone, Ltd., Chicago, Illinois, counsel to K.A. Steel, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

Surftec Enterprises, Inc.

SURFTEC ENTERPRISES, INC. ("Surftec"), doing business as Armoloy of Illinois, is a Delaware corporation located at 118 Simonds Avenue, DeKalb, Illinois 60115. Surftec is primarily engaged in the chromium plating business. The Company has an exclusive right to practice, make and use the "armoloy process" for chromium plating in the states of Illinois, Indiana and Wisconsin. The "armoloy process" involves coating by means of an electro-deposited hard chromium mainly used in industrial wear and corrosive applications.

The Company was founded in 1969 as Armoloy of Illinois Division of Canto Tool Corporation. Surftec was purchased in 1977 by the two individuals who had been primarily responsible for the Company's operations since 1969. The Company employs approximately 18 persons.

The Project is designed to enable Surftec to comply with environmental regulations of the City of DeKalb. The Project will provide for the installation of pollution control equipment in a new plating facility and will be coordinated with existing pollution control facilities. The Project will cost an estimated $132,790 and will include the installation of a concentration reduction tank, an ion-exchanger, an evaporator separator, and settling tanks.

Rissman, Jenkins & Cronaver, DeKalb, Illinois, counsel to Surftec, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

OFFICIAL STATEMENT

In the opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel, based on existing laws, including current rulings and official interpretations of law by the Internal Revenue Service, interest on the Series 1980 Bonds will be excludable from the gross income of the recipients thereof for Federal income tax purposes except in the circumstances described under the heading "Tax Exemption" herein.

$5,000,000

Illinois Environmental Facilities Financing Authority

Pollution Control Revenue Bonds, Small Business Series 1980

(Clayton Chemical Company Project)

Dated: July 1, 1980 **Due: July 1 of the years shown below**

The Series 1980 Bonds will be issued by the Illinois Environmental Facilities Financing Authority (the "Authority") to provide funds to Clayton Chemical Company (the "Company") for the acquisition, construction and installation of certain pollution control and liquid waste treatment facilities. The Series 1980 Bonds will be limited obligations of the Authority and, except to the extent payable out of Bond proceeds or the income from the temporary investment thereof, will be payable solely from and secured by a pledge of revenues to be derived by the Authority from the Company pursuant to a Loan Agreement, and as otherwise provided in the Indenture.

THE COMPANY IS OBLIGATED UNDER THE LOAN AGREEMENT TO MAKE MONTHLY PAYMENTS SUFFICIENT, IN THE AGGREGATE, TO PAY THE PRINCIPAL OF AND INTEREST ON THE SERIES 1980 BONDS. PURSUANT TO SECTION 404(b)(2) OF THE SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED, THE UNITED STATES SMALL BUSINESS ADMINISTRATION WILL GUARANTEE THE OBLIGATION OF THE COMPANY TO MAKE SUCH MONTHLY PAYMENTS.

Neither the faith and credit nor the taxing power of the State of Illinois or the United States of America is pledged to the payment of the principal of or interest on the Series 1980 Bonds, nor is there any personal liability to anyone with respect to the Series 1980 Bonds by any officer or employee of the United States of America or any agency thereof.

The Series 1980 Bonds will be issuable as coupon bonds, registrable as to principal only, in the denomination of $5,000, and as fully registered bonds without coupons in denominations of $5,000 and any authorized multiple thereof. Principal and semiannual interest (January 1 and July 1 commencing January 1, 1981) will be payable at the principal office of Mercantile Trust Company National Association, St. Louis, Missouri, Trustee and Paying Agent. The Series 1980 Bonds are not callable prior to maturity except through optional and mandatory redemption as described herein, including provision for mandatory partial redemption of the Series 1980 Bonds having a stated maturity of July 1, 1995, by operation of a sinking fund on July 1, 1988 and on each July 1 thereafter until and including July 1, 1994, in the respective amounts described on page 6 hereof.

Due July 1	Amount	Coupon Rate	Due July 1	Amount	Coupon Rate
1981	$210,000	5.25%	1985	$260,000	6.00%
1982	220,000	5.60	1986	270,000	6.10
1983	230,000	5.75	1987	290,000	6.25
1984	240,000	5.90			

Due July 1	Amount	Coupon Rate
1995	$3,280,000	7.00%

Price of All Bonds: 100% (Accrued Interest to be Added)

The Series 1980 Bonds will be offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter and subject to prior sale, to withdrawal or modification of the offer without any notice and to certain other conditions, including the unqualified approval of legality by Chapman and Cutler, Chicago, Illinois, Bond Counsel.

Delivery of the Bonds in definitive form is expected on or about July 22, 1980. Subject to applicable securities laws and prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Bonds. It is not anticipated that any other secondary market will develop for the Bonds. For information with respect to the Underwriter and its compensation, see "Underwriting" herein.

ROBERT W. BAIRD & CO.
INCORPORATED

Dated: July 9, 1980

entirety by reference to the definitive forms thereof included in the Indenture, all of which are available for inspection at the office of the Trustee after delivery of the Series 1980 Bonds to the Underwriter. From the date hereof until the date of delivery of the Series 1980 Bonds, the form of all such documents will be available at the principal office of the Underwriter. The statements contained under the headings "THE SERIES 1980 BONDS", "THE GUARANTEE", "THE AGREEMENT", "THE INDENTURE" and "TAX EXEMPTION" have been reviewed by Chapman and Cutler, Bond Counsel, who are of the opinion that such statements are accurate statements or summaries of the matters set forth therein and fairly present the information purported to be shown. The information contained under the headings "THE COMPANY", "THE PROJECT" and "PROJECT COSTS AND USE OF PROCEEDS" has been furnished exclusively by the Company.

THE AUTHORITY

The Authority is a body politic and corporate and a public instrumentality of the State of Illinois duly organized and existing under the Illinois Environmental Facilities Financing Act, Illinois Revised Statutes 1979, Chapter 127, Section 721 et seq., as amended (the "Act"). Pursuant to the Act, the Authority is empowered to acquire, construct, reconstruct, repair, alter, improve, extend, own, finance, lease, sell and otherwise dispose of pollution control facilities ("Environmental Facilities").

THE AUTHORITY'S PROGRAM TO ASSIST SMALL BUSINESSES

The Act expresses the intent of the General Assembly of the State of Illinois that the Authority give special consideration to small businesses in authorizing the issuance of bonds for the financing of Environmental Facilities in order to assist small businesses in surviving the economic burdens imposed upon them by the required financing of such Environmental Facilities. In fulfilling that mandate, the Authority has collaborated with departments of State government, business associations and financial institutions (both within and outside Illinois) in a continuing effort to inform smaller business enterprises of the potential advantages of tax exempt revenue bond financing. The Authority has also been working with the SBA in structuring financings employing guarantees by the SBA.

The Authority will continue to seek out businesses which qualify for the type of financing described herein.

THE COMPANY

Clayton Chemical Company is a Missouri corporation with its principal office at 10 South Brentwood Boulevard, St. Louis, Missouri 63105. The Company was incorporated in 1961 and employs 8 persons, which number is expected to increase to approximately 14 persons upon completion of the Project. The primary business activity of the Company is liquid waste recovery and reclamation.

THE PROJECT

The Project consists of site improvements to be constructed and oil re-refining equipment to be acquired and installed at the Plant of the Company in Sauget, Illinois. The equipment will replace existing oil reprocessing equipment in order to comply with new Environmental Protection Agency regulations. The Project will be used to reduce pollution and liquid waste by removing and detoxifying contaminants from waste oil. The site of the Plant and the Project is leased by the Company from Illinois Central Gulf Railroad Company under a lease which terminates on November 30, 1994.

RATED: Moody's: Aaa

In the opinion of Messrs. Chapman and Cutler, Chicago, Illinois, Bond Counsel, based on existing laws, including current rulings and official interpretations of law by the Internal Revenue Service, interest on the Bonds of each issue will be excludable from the gross income of the recipients thereof for Federal income tax purposes except in the circumstances described under the heading "Tax Exemption" herein.

$3,530,000

Illinois Environmental Facilities Financing Authority

Pollution Control Revenue Bonds, Small Business Series 1980 A1–A8

Dated: April 1, 1980 **Due: April 1 of the years shown below**

The Small Business Series 1980 A1-A8 Bonds (the "1980 A Bonds") consist of eight separate issues, each of which is to be used to provide funds to one of eight small business enterprises (collectively the "Companies") for the acquisition, construction and installation of certain pollution control or solid waste disposal facilities. The 1980 A Bonds will be limited obligations of the Illinois Environmental Facilities Financing Authority (the "Authority") and, except to the extent payable out of Bond proceeds or the income from the temporary investment thereof, will be payable solely from and secured by a pledge of revenues to be derived by the Authority from each Company pursuant to separate Loan Agreements, and as otherwise provided in each Indenture.

EACH COMPANY IS OBLIGATED UNDER A SEPARATE LOAN AGREEMENT TO MAKE MONTHLY PAYMENTS SUFFICIENT, IN THE AGGREGATE, TO PAY THE PRINCIPAL OF AND INTEREST ON THE RELATED ISSUE OF 1980 A BONDS. PURSUANT TO SECTION 404(b)(2) OF THE SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED, THE UNITED STATES SMALL BUSINESS ADMINISTRATION WILL GUARANTEE THE OBLIGATIONS OF EACH COMPANY TO MAKE CERTAIN OF THE MONTHLY PAYMENTS WHICH WILL, TOGETHER WITH MONEYS DEPOSITED INTO THE RELATED ESCROW FUND ESTABLISHED UNDER THE RELATED INDENTURE AND INITIALLY FUNDED FROM THE PROCEEDS OF THE RELATED ISSUE OF 1980 A BONDS, BE SUFFICIENT IN THE AGGREGATE TO PAY THE PRINCIPAL OF AND INTEREST ON THE RELATED ISSUE OF 1980 A BONDS.

The Bonds of each issue will be issuable as coupon bonds in the denomination of $5,000 in bearer form only. Principal and semiannual interest (April 1 and October 1, first payment October 1, 1980) will be payable at the principal office of American National Bank and Trust Company of Chicago, Chicago, Illinois, Trustee and Paying Agent.

The 1980 A Bonds are subject to redemption prior to maturity as described herein.

Neither the faith and credit nor the taxing power of the State of Illinois or the United States of America is pledged to the payment of the principal of or interest on the Bonds of any issue. In any event, there is no personal liability to anyone with respect to the 1980 A Bonds by any officer or employee of the United States of America or any agency thereof.

Amount	Due April 1	Coupon Rate	Amount	Due April 1	Coupon Rate
$100,000	1981	7.00%	$195,000	1989	7.20%
125,000	1982	7.00	220,000	1990	7.25
125,000	1983	7.00	225,000	1991	7.30
140,000	1984	7.00	250,000	1992	7.35
155,000	1985	7.00	135,000	1993	7.40
165,000	1986	7.05	150,000	1994	7.50
175,000	1987	7.10	165,000	1995	7.60
190,000	1988	7.15			

Amount	Due April 1	Coupon Rate
$1,015,000	2000	7.75%

Price of All Bonds: 100%

(Accrued Interest to be Added)

Depending upon amounts purchased, the purchase of 1980 A Bonds of any particular maturity may involve the purchase of bonds of more than one of the eight separate issues herein described.

The 1980 A Bonds will be offered by the Underwriters when, as and if issued by the Authority and accepted by the Underwriters and subject to prior sale, to withdrawal or modification of the offer without any notice and to the approval of legality by Messrs. Chapman and Cutler, Chicago, Illinois, Bond Counsel, and certain other conditions. It is expected that the 1980 A Bonds in definitive form will be available for delivery on or about May 12, 1980 in Chicago, Illinois.

FIRST CHICAGO
The First National Bank of Chicago

CLAYTON BROWN & ASSOCIATES, INC.

Dated: April 24, 1980

There follow in this Official Statement brief descriptions of the Authority, the Authority's Program to Assist Small Businesses, the Projects and Uses of Proceeds, the 1980 A Bonds, the Guarantees, the SBA Pollution Control Financing Guarantee Program, the Agreements and the Indentures. The descriptions herein of the Guarantees, the Agreements and the Indentures are qualified in their entirety by reference to such documents and references herein to the 1980 A Bonds are qualified in their entirety by reference to the definitive forms thereof included in the Indentures, all of which are available for inspection after the closing at the office of the Trustee. From the date hereof until the date of closing, the form of all such documents will be available at the principal offices of the Underwriters. The statements contained under the headings "THE 1980 A BONDS", "THE GUARANTEES", "THE AGREEMENTS", "THE INDENTURES" and "TAX EXEMPTION" have been reviewed by Messrs. Chapman and Cutler, Bond Counsel, who are of the opinion that such statements are accurate statements or summaries of the matters set forth therein and fairly present the information purported to be shown. The information contained under the heading "THE PROJECTS AND USES OF PROCEEDS" and information in the Appendix have been furnished exclusively by the Company to which such information pertains.

THE AUTHORITY

The Authority is a body politic and corporate and a public instrumentality of the State of Illinois duly organized and existing under the Illinois Environmental Facilities Financing Act, Illinois Revised Statutes, 1977, Chapter 127, Sections 721 *et seq.*, as amended (the "Act"). Pursuant to the Act, the Authority is empowered to acquire, construct, reconstruct, repair, alter, improve, extend, own, finance, lease, sell and otherwise dispose of pollution control and surface mined land reclamation facilities ("Environmental Facilities").

THE AUTHORITY'S PROGRAM TO ASSIST SMALL BUSINESSES

The Act expresses the intent of the General Assembly of the State of Illinois that the Authority give special consideration to small businesses in authorizing the issuance of bonds for the financing of Environmental Facilities in order to assist small businesses in surviving the economic burdens imposed upon them by the required financing of such Environmental Facilities. In fulfilling that mandate, the Authority has collaborated with departments of State government, business associations and financial institutions (both within and outside Illinois) in a continuing effort to inform smaller business enterprises of the potential advantages of tax-exempt revenue bond financing. The Authority has also been working with the SBA in structuring financings employing guarantees by the SBA.

The Authority will continue to seek out businesses which qualify for the type of financing described herein.

THE PROJECTS AND USES OF PROCEEDS

The Projects are being installed to reduce or control various forms of pollution or solid waste. The following table sets forth certain information concerning the Projects and the uses of proceeds of the 1980 A Bonds:

Issue	Company	Project Abates(1)	Estimated Project Costs(2)	Escrow Fund Deposit(3)	Estimated Other Costs(4)	Total Amount of Issue
Series A1	The Sidwell Co.	Water Pollution	$ 94,507	$ 2,919	$ 17,574	$ 115,000
Series A2	International Processing Company of America	Water Pollution	141,996	4,233	23,771	170,000
Series A3	Congress Linen Supply Company	Water Pollution	223,518	6,561	34,921	265,000
Series A4	Sipi Metals Corp.	Air and Water Pollution	698,435	20,205	101,360	820,000
Series A5	The C.P. Hall Company	Water Pollution	174,334	5,082	25,584	205,000
Series A6	American Metal Decorating Co. (5)	Air Pollution	544,364	15,786	70,168	640,000
Series A7	Mercury Finishing Company	Water Pollution	267,000	7,794	40,206	315,000
Series A8	M. Buerkett, Inc.	Solid Waste	861,365	31,386	107,249	1,000,000
						$3,530,000

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(1) Each project is described more fully in the Appendix.

APPENDIX

THE COMPANIES AND THE PROJECTS

The information contained in this Appendix has been obtained by the Authority from each of the individual companies named herein, but the statements made in this Appendix should not be construed as a representation or warranty of the Authority or the Underwriters.

The Sidwell Company

THE SIDWELL COMPANY ("Sidwell") is an Illinois corporation located at 28 W 240 North Avenue, West Chicago, Illinois 60185. Sidwell is engaged in the businesses of map-making, aerial surveys, and photogrammetry. The Company was founded in 1925 and incorporated in 1958. Sidwell is a family owned and operated business. The Company employs approximately 90 persons.

The Project is designed to enable the Company to comply with certain regulations of the Illinois Environmental Protection Agency concerning discharges into the municipal sanitary system. The estimated total cost of the Project is $94,507.

Rathje, Woodward, Dyer and Burt, Wheaton, Illinois, counsel to Sidwell, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriters and the Company.

International Processing Company of America

INTERNATIONAL PROCESSING COMPANY OF AMERICA ("International Processing") is an Illinois corporation located at 1485 Lively Boulevard, Elk Grove Village, Illinois 60007. International Processing is primarily engaged in the metal coating business.

International Processing was incorporated in 1971 and is a closely held corporation with approximately thirty-five employees. A portion of the Project will enable International Processing to comply with certain waste treatment regulations of The Metropolitan Sanitary District of Greater Chicago by removing excessive concentrations of chrome, hexavelent chrome and lead from waste water discharge and correcting a high pH discharge through a pre-treatment facility. The estimated total cost of the Project is $141,996.

D'Ancona, Pflaum, Wyatt & Riskind, Chicago, Illinois, counsel to International Processing, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriters and the Company.

Congress Linen Supply Company

CONGRESS LINEN SUPPLY COMPANY ("Congress Linen") is an Illinois corporation located at 2215 W. Madison Street, Chicago, Illinois 60612. Congress Linen is primarily engaged in the operation of a commercial laundry facility.

Congress Linen was founded in 1930 and incorporated in 1948. The Company is a family owned and operated business. The Company employs approximately 65 persons.

The Project is designed to enable the Company to comply with the Sewage and Waste Control Ordinance of The Metropolitan Sanitary District of Greater Chicago. The Project consists of a waste water treatment system to be installed at the Company's plant. The estimated total cost of the Project is $233,000.

Bilandic, Neistein, Richman, Hauslinger, and Young, Ltd., Chicago, Illinois, counsel to Congress Linen, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriters and the Company.

Sipi Metals Corp.

Sipi Metals Corp. ("Sipi") is an Illinois corporation located at 1720 N. Elston Avenue, Chicago, Illinois 60622. Sipi is primarily engaged in the business of smelting copper base scrap material and producing specification foundry ingot. Sipi is a family owned and operated business. The Company was incorporated in 1932. Sipi employs approximately 173 persons.

The Project is designed to enable Sipi to comply with certain environmental regulations of The Metropolitan Sanitary District of Greater Chicago and the Illinois Environmental Protection Agency. The Project consists of a water treatment plant for rain runoff from the Company's operations, a waste product handling system on the existing pollution control apparatus for brass ingot production, an expansion of an existing air pollution control system for brass ingot production, and the replacement of an air pollution control facility for processing precious metal materials. The estimated total cost of the Project is $721,343.

Antonow & Fink, Chicago, Illinois, counsel to Sipi, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriters and the Company.

The C.P. Hall Company

The C.P. Hall Company ("C.P. Hall") is an Ohio corporation with principal headquarters located at 7300 South Central Avenue, Chicago, Illinois 60638. C.P. Hall is primarily engaged in the manufacturing and distribution of various industrial and specialty chemicals. The Company also operates facilities in Memphis, Tennessee, Stow, Ohio, and Torrance, California as well as in the Chicago area. C.P. Hall was founded in 1919 and incorporated in 1930. C.P. Hall is a closely held corporation. The Company employs approximately 188 persons.

The Project is designed to enable the Company to comply with certain environmental regulations of The Metropolitan Sanitary District of Greater Chicago. The Project will be located at the Company's new production facilities in Bedford Park, Illinois. The Project consists of equipment for the collection, monitoring, and treatment of waste water. The estimated total cost of the Project is $174,334.

McDermott, Will & Emery, Chicago, Illinois, counsel to C.P. Hall, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriters and the Company.

American Metal Decorating Co.

American Metal Decorating Co. ("American Metal") is a Delaware corporation located at 12701 S. Ridgeway Avenue, Alsip, Illinois 60658. American Metal is primarily engaged in the business of custom sheet metal lithography and coating. American Metal was incorporated in 1947 and is a closely held corporation. The Company employs approximately 130 persons. American Metal Decorating Co. of California, a California corporation, a wholly owned subsidiary of American Metal, will be a co-obligor for all financial obligations of American Metal under its Agreement.

The Project is designed to enable American Metal to comply with certain air pollution regulations of the Cook County Department of Environmental Control. The Project will serve to facilitate the expansion of present production capacity as well as replace existing pollution control equipment. The Project consists of a "Fume Incineration and Heat Recovery System" for this purpose. The estimated total cost of the Project is $554,046.

Boodell, Sears, Giambolvo & Crowley, Chicago, Illinois, counsel to the Company, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriters and the Company.

Mercury Finishing Company

MERCURY FINISHING COMPANY ("Mercury Finishing") is an Illinois corporation located at 2112 S. Prairie Avenue, Chicago, Illinois 60616. Mercury Finishing is primarily engaged in the business of chrome plating of plastics. Mercury Finishing was established in 1969 and incorporated in 1976. The chief operating officer is the sole stockholder of the Company. Mercury Finishing employs approximately 48 persons.

The Project is designed to enable Mercury Finishing to comply with certain environmental regulations of The Metropolitan Sanitary District of Greater Chicago. The Project consists of a waste water treatment system. The estimated total cost of the Project is $267,000.

Arvey, Hodes, Costello, and Burman, Chicago, Illinois, counsel to the Company will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriters and the Company.

M. Buerkett, Inc.

M. Buerkett, Inc. ("Buerkett") is a Delaware corporation located on Koke Mill Lane, Springfield, Illinois, 62707. Buerkett is primarily engaged in the business of collection, processing, and disposal of solid waste. Established in 1965, Buerkett was incorporated in 1980. The family of the chief operating officer is the sole stockholder of Buerkett. Buerkett employs approximately 6 persons.

The Project is designed to dispose of solid waste in a more efficient and economical manner. The Illinois Environmental Protection Agency has certified that the Project would likely prevent, reduce, abate, or control pollution or contaminants. The Project consists of land, buildings, and certain equipment necessary to process and dispose of solid waste. The Project provides for shredding of waste materials for compaction, separation of ferrous metals for reclamation, and final disposition of shredded material in an approved landfill site adjacent to the Project. The estimated total cost of the Project is $901,877.

Mohan, Alewelt, & Prillaman, Springfield, Illinois, counsel to the Company, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriters and the Company.

RATED: Moody's: Aaa

In the opinion of Borge and Pitt, Chicago, Illinois, Bond Counsel, based on existing laws, including current rulings and official interpretations of law by the Internal Revenue Service, interest on the Bonds will be excludable from the gross income of the recipients thereof for Federal income tax purposes except in the circumstances described under the heading "Tax Exemption" herein.

$1,800,000

Illinois Environmental Facilities Financing Authority

Pollution Control Revenue Bonds, Small Business Series 1981 (Metropolitan Reclamation and Transfer Center Project)

Dated: April 1, 1981 **Due: April 1 of the years shown below**

The Series 1981 Bonds (the "Bonds") will be used to provide funds to Metropolitan Reclamation and Transfer Center (the "Partnership") for the acquisition, construction and installation of a solid waste disposal facility. The Bonds will be limited obligations of the Illinois Environmental Facilities Financing Authority (the "Authority") and, except to the extent payable out of Bond proceeds or the income from the temporary investment thereof, will be payable solely from and secured by a pledge of revenues to be derived by the Authority from the Partnership pursuant to the Loan Agreement and as otherwise provided in the Indenture.

THE PARTNERSHIP IS OBLIGATED UNDER A LOAN AGREEMENT TO MAKE MONTHLY PAYMENTS SUFFICIENT IN THE AGGREGATE, TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS. PURSUANT TO SECTION 404(b)(2) OF THE SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED, THE UNITED STATES SMALL BUSINESS ADMINISTRATION WILL GUARANTEE THE OBLIGATIONS OF THE PARTNERSHIP TO MAKE CERTAIN OF THE MONTHLY PAYMENTS WHICH WILL, TOGETHER WITH MONEYS DEPOSITED INTO THE ESCROW FUND ESTABLISHED UNDER THE INDENTURE AND INITIALLY FUNDED FROM THE PROCEEDS OF THE BONDS, BE SUFFICIENT IN THE AGGREGATE TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS.

The Bonds will be issuable as coupon bonds in the denomination of $5,000 in bearer form only. Principal and semiannual interest (April 1 and October 1, first payment October 1, 1981) will be payable at the principal office of Central National Bank in Chicago, Chicago, Illinois, Trustee and Paying Agent.

The Bonds are subject to redemption prior to maturity as described herein.

Neither the faith and credit nor the taxing power of the State of Illinois or the United States of America is pledged to the payment of the principal of or interest on the Bonds. In any event, there is no personal liability to anyone with respect to the Bonds by an officer or employee of the United States of America or any agency thereof.

Amount	Due April 1	Coupon Rate	Amount	Due April 1	Coupon Rate
$35,000	1982	7.70	$ 70,000	1990	9.20
40,000	1983	7.90	75,000	1991	9.40
45,000	1984	8.10	75,000	1992	9.60
45,000	1985	8.25	95,000	1993	9.75
50,000	1986	8.40	100,000	1994	9.90
50,000	1987	8.60	100,000	1995	10.00
60,000	1988	8.80	120,000	1996	10.00
65,000	1989	9.00			

Amount	Due April 1	Coupon Rate
$775,000	2001	10.50

Price of All Bonds: 100%

(Accrued Interest to be Added)

The Bonds will be offered by the Underwriter, when, as and if issued by the Authority and accepted by the Underwriter and subject to prior sale, to withdrawal or modification of the offer without any notice and to the approval of legality by Borge and Pitt, Chicago, Illinois, Bond Counsel, and certain other conditions. It is expected that the Bonds in definitive form will be available for delivery on or about April 1, 1981 in Chicago, Illinois.

CLAYTON BROWN & ASSOCIATES, INC.

Dated: March 17, 1981

THE AUTHORITY

The Authority is a body politic and corporate and a public instrumentality of the State of Illinois duly organized and existing under the Illinois Environmental Facilities Finance Act, Illinois Revised Statutes, 1979, Chapter 127, Section 721 et seq., as amended (the "Act"). Pursuant to the Act, the Authority is empowered to acquire, construct, reconstruct, repair, alter, improve, extend, own, finance, lease, sell and otherwise dispose of pollution control and surface mined land reclamation facilities ("Environmental Facilities").

THE AUTHORITY'S PROGRAM TO ASSIST SMALL BUSINESSES

The Act expresses the intent of the General Assembly of the State of Illinois that the Authority give special consideration to small businesses in authorizing the issuance of bonds for the financing of Environmental Facilities in order to assist small businesses in constructing facilities which reduce or control pollution by disposal of wastes and reclamation of substances from wastes. In fulfilling that mandate, the Authority has collaborated with departments of State government, business associations and financial institutions (both within and outside Illinois) in a continuing effort to inform smaller business enterprises of the potential advantages of tax exempt revenue bond financing. The Authority has also been working with the SBA in structuring financings employing guarantees by the SBA.

The Authority will continue to seek out businesses which qualify for the type of financing described herein.

THE PARTNERSHIP

Metropolitan Reclamation and Transfer Center is an Illinois Partnership formed by two local waste management firms in the East Moline, Illinois area for purposes of acquiring, constructing and operating the Project.

THE PROJECT

The Project, employing approximately seven persons, is designed to reclaim certain materials found in most solid wastes, such as paper, metals and wood. After the extraction of recyclables, the residual wastes will be compacted into bales having an approximate weight of one ton and measuring approximately 1.9 cubic yards per bale. The Project is expected thereby to physically reduce the volume of solid wastes deposited in landfills in the State of Illinois.

PROJECT COSTS AND USE OF PROCEEDS

The Partnership estimates that total project costs, including costs related to the issuance of the Bonds will be $1,800,000. The Partnership is obligated to pay any costs of the Project which are not funded through the issuance of the Bonds, except as may be provided for by the issuance of Additional Bonds under the Indenture.

The Partnership anticipates that the proceeds from the issuance and sale of the Bonds, excluding accrued interest derived from such sale, will be applied as set forth below:

Project Costs	$1,520,253
SBA Fees (1)	147,329
Deposit into Escrow Fund (2)	52,868
Underwriter's Discount	45,000
Legal, Printing and Other Issuance Expenses	34,550
TOTAL	$1,800,000

(1) Includes Guarantee Fee and Processing and Administrative Fees.
(2) Represents one-fourth of the average annual Loan Repayments.

RATED: Moody's: Aaa

In the opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel, based on existing laws, including current rulings and official interpretations of law by the Internal Revenue Service, interest on the Bonds of each issue will not be includable in the gross income of the recipients thereof for federal income tax purposes and consequently will be exempt from present federal income taxes except in the circumstances described under the heading "Tax Exemption" herein.

$3,280,000

Illinois Environmental Facilities Financing Authority

Pollution Control Revenue Bonds, Small Business Series 1981 A1-A4

Dated: August 1, 1981 **Due: August 1 of the years shown below**

The Small Business Series 1981 A1-A4 Bonds (the "1981 A Bonds") consist of four separate issues, each of which is to be used to provide funds to one of four small business enterprises (collectively the "Companies") for the acquisition, construction and installation of certain pollution control or solid waste disposal facilities. The 1981 A Bonds will be limited obligations of the Illinois Environmental Facilities Financing Authority (the "Authority") and, except to the extent payable out of Bond proceeds or the income from the temporary investment thereof, will be payable solely from and secured by a pledge of revenues to be derived by the Authority from each Company pursuant to separate Loan Agreements, and as otherwise provided in each Indenture.

EACH COMPANY IS OBLIGATED UNDER A SEPARATE LOAN AGREEMENT TO MAKE MONTHLY PAYMENTS SUFFICIENT, IN THE AGGREGATE, TO PAY THE PRINCIPAL OF AND INTEREST ON THE RELATED ISSUE OF 1981 A BONDS. PURSUANT TO SECTION 404(b)(2) OF THE SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED, THE UNITED STATES SMALL BUSINESS ADMINISTRATION WILL GUARANTEE THE OBLIGATIONS OF EACH COMPANY TO MAKE THE MONTHLY PAYMENTS WHICH WILL BE SUFFICIENT IN THE AGGREGATE TO PAY THE PRINCIPAL OF AND INTEREST ON THE RELATED ISSUE OF 1981 A BONDS.

The Bonds of each issue will be issuable as coupon bonds in the denomination of $5,000 in bearer form only. Principal and semiannual interest (August 1 and February 1, first payment February 1, 1982) will be payable at the principal corporate trust office of Central National Bank in Chicago, Chicago, Illinois, Trustee and Paying Agent.

The 1981 A Bonds are subject to redemption prior to maturity as described herein.

Neither the faith and credit nor the taxing power of the State of Illinois or the United States of America is pledged to the payment of the principal of or interest on the Bonds of any issue. In any event, there is no personal liability to anyone with respect to the 1981 A Bonds by any officer or employee of the United States of America or any agency thereof.

Amount	Due August 1	Coupon Rate	Amount	Due August 1	Coupon Rate
$ 70,000	1982	9.10%	$ 85,000	1987	10.20%
75,000	1983	9.40	90,000	1988	10.40
80,000	1984	9.60	100,000	1989	10.55
90,000	1985	9.80	110,000	1990	10.70
105,000	1986	10.00	120,000	1991	10.80

Amount	Due August 1	Coupon Rate
$2,355,000	2001	12.00%

Price of All Bonds: 100%
(Accrued Interest to be Added)

Depending upon amounts purchased, the purchase of 1981 A Bonds of any particular maturity may involve the purchase of bonds of more than one of the four separate issues herein described.

The 1981 A Bonds will be offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter and subject to prior sale, to withdrawal or modification of the offer without any notice and to the approval of legality by Chapman and Cutler, Chicago, Illinois, Bond Counsel, and certain other conditions. It is expected that the 1981 A Bonds in definitive form will be available for delivery on or about August 28, 1981 in Chicago, Illinois.

FIRST CHICAGO
The First National Bank of Chicago

Dated: August 19, 1981

tees, the SBA Pollution Control Financing Guarantee Program, the Agreements and the Indentures. The descriptions herein of the Guarantees, the Agreements and the Indentures are qualified in their entirety by reference to such documents, and references herein to the 1981 A Bonds are qualified in their entirety by reference to the definitive forms thereof included in the Indentures, all of which are available for inspection after the closing at the office of the Trustee. From the date hereof until the date of closing, the form of all such documents will be available at the principal office of the Underwriter. The statements contained under the headings "THE 1981 A BONDS", "THE GUARANTEES", "THE AGREEMENTS", "THE INDENTURES" and "TAX EXEMPTION" have been reviewed by Chapman and Cutler, Bond Counsel, who are of the opinion that such statements are accurate statements or summaries of the matters set forth therein and fairly present the information purported to be shown. The information contained under the heading "THE PROJECTS AND USES OF PROCEEDS" and information in the Appendix have been furnished exclusively by the Company to which such information pertains.

THE AUTHORITY

The Authority is a body politic and corporate and a public instrumentality of the State of Illinois duly organized and existing under the Illinois Environmental Facilities Financing Act, Illinois Revised Statutes, 1979, Chapter 127, Sections 721 to 739, inclusive, as amended (the "Act"). Pursuant to the Act, the Authority is empowered to acquire, construct, reconstruct, repair, alter, improve, extend, own, finance, lease, sell and otherwise dispose of pollution control and surface mined land reclamation facilities ("Environmental Facilities").

THE AUTHORITY'S PROGRAM TO ASSIST SMALL BUSINESSES

The Act expresses the intent of the General Assembly of the State of Illinois that the Authority give special consideration to small businesses in authorizing the issuance of bonds for the financing of Environmental Facilities in order to assist small businesses in surviving the economic burdens imposed upon them by the required financing of such Environmental Facilities. In fulfilling that mandate, the Authority has collaborated with departments of State government, business associations and financial institutions (both within and without the State of Illinois) in a continuing effort to inform smaller business enterprises of the potential advantages of tax-exempt revenue bond financing. The Authority has also been working with the SBA in structuring financings employing guarantees by the SBA.

The Authority will continue to seek out businesses which qualify for the type of financing described herein.

THE PROJECTS AND USES OF PROCEEDS

The Projects are being installed to reduce or control various forms of pollution or solid waste. The following table sets forth certain information concerning the Projects and the uses of proceeds of the 1981 A Bonds:

Issue	Company	Project Abates(1)	Estimated Project Costs	Escrow Fund Deposit(2)	Estimated Other Costs(3)	Total Amount of Issue
A1	......C. Groot Automatic Disposal Company	Solid Waste	$1,858,034	$74,283	$327,683	$2,260,000
A2	......Brooks Disposal Service Inc.	Solid Waste	471,107	18,957	84,936	575,000
A3	......H. Kramer & Co.	Air Pollution	273,929	11,055	50,016	335,000
A4	......Custom Aluminum Products, Inc.	Water Pollution	91,331	7,182	11,487	110,000
						$3,280,000

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(1) Each project is described more fully in the Appendix.

(2) Escrow Fund deposits represent one-fourth the average annual Loan Repayments.

APPENDIX

THE COMPANIES AND THE PROJECTS

The information contained in this Appendix has been obtained by the Authority from each of the individual companies named herein, but the statements made in this Appendix should not be construed as a representation or warranty of the Authority or the Underwriter.

C. Groot Automatic Disposal Company

C. GROOT AUTOMATIC DISPOSAL COMPANY ("Groot"), a Delaware corporation, began operations in 1914 and was incorporated in 1960. The principal corporate headquarters of Groot is located at 8305 Ogden Avenue, Berwyn, Illinois, 60402. Groot, a family-owned company, is in the solid waste disposal business in the Chicago metropolitan area. Groot, and its affiliates, employ approximately 65 persons.

The Project consists of the construction of a solid waste transfer facility with a support facility and the purchase of solid waste disposal equipment. A solid waste transfer facility processes solid waste material in an efficient, cost-effective manner before final disposal at a licensed, sanitary landfill. Total cost of the Project is estimated to be $1,858,034.

Hlustik, Huizenga and Williams, Chicago, Illinois, counsel to Groot, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

Brooks Disposal Service Inc.

BROOKS DISPOSAL SERVICE INC. ("Brooks Disposal") is an Illinois corporation located at 2750 Shermer Road, Northbrook, Illinois 60062. Brooks Disposal is a closely held business which began as a partnership in 1954 and was incorporated in 1962. Their business activity involves the collection and disposal of residential and industrial rubbish. There are approximately 23 persons employed at Brooks Disposal.

The Project consists of constructing a transfer station facility and purchasing necessary equipment for the operation of that facility. This facility will allow solid waste to be processed in a more efficient manner prior to final disposal at a licensed, sanitary landfill operation. Some recycling operations may also be conducted at the transfer station facility. Total cost of the Project is estimated to be $471,107.

De Jong Poltrock and Giampietro, Chicago, Illinois, counsel to Brooks Disposal, will pass upon the validity of its obligations under its Agreement and that particular Bond Purchase Agreement between the Authority. the Underwriter and the Company.

H. Kramer & Co.

H. KRAMER & Co. ("Kramer") is an Illinois corporation located at 1339 W. 21st Street, Chicago, Illinois 60608. Kramer is a smelter and refiner of copper base alloy scrap, and a producer of brass and bronze ingots, phosphor copper and special alloys. The Company was founded in 1888 and became a corporation in 1904. Kramer employs approximately 261 persons.

The Project includes the purchase and installation of a new three module bag house replacing the existing bag house, which will enable the Company to meet the standards of the Illinois Environmental Protection Agency Air Contaminant Emissions Standards. The estimated total cost of the Project is $273,929.

Arthur M. Oppenheimer, Chicago, Illinois, counsel to Kramer, will pass upon the validity of its obligations under its Agreement and the particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

Custom Aluminum Products, Inc.

Custom Aluminum Products, Inc. ("Custom Aluminum") is an Illinois Corporation located at 414 West Division Street, South Elgin, Illinois 60177. The Company began operations in 1960 as a manufacturer of doors and other products in the home building industry. Its product lines have since expanded to include display cases and other products for industries. Custom Aluminum was incorporated in 1965. Custom Aluminum is a family owned business employing approximately 96 persons.

The Project to be financed is the construction of industrial wastewater pre-treatment facilities which will enable the Company to comply with certain regulations of the Sanitary District of Elgin. The estimated total cost of the Project is $91,331.

McBride & Baker, Chicago, Illinois, counsel to Custom Aluminum, will pass upon the validity of its obligations under its Agreement and the particular Bond Purchase Agreement between the Authority, the Underwriter and the Company.

OFFICIAL STATEMENT

NEW ISSUE

Interest exempt, in the opinion of Foley, Lardner, Hollabaugh & Jacobs, Washington, D.C., Bond Counsel, from present Federal income taxes under existing statutes, court decisions, regulations and rulings, except as provided in Section 103 of the Internal Revenue Code as to any Bond held by a substantial user of the Project or by a related person. See "Tax Exemption" herein.

$750,000

Illinois Environmental Facilities Financing Authority

Small Business Pollution Control Revenue Bonds
(X L Disposal Corporation Project)

Dated: July 1, 1981 **Due: July 1 of the years shown below:**

The proceeds of the Bonds will fund a loan to X L Disposal Corporation (the "Borrower") identified herein for the purpose of providing financing for the Borrower's pollution control project. The Bonds are special revenue obligations of the Illinois Environmental Facilities Financing Authority ("the Authority"), payable solely from revenues derived under the terms of a Loan Agreement and a Promissory Note delivered by the Borrower. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY OR OF THE UNITED STATES OF AMERICA, AND ARE NOT SECURED BY THE FULL FAITH AND CREDIT OR TAXING POWERS OF ANY FEDERAL, STATE OR LOCAL GOVERNMENT OR AGENCY.

The Borrower's Promissory Note is payable in installments of principal and interest sufficient in amount to provide revenues for the payment when due (including mandatory sinking fund redemptions) of the principal of and interest on the Bonds. THE OBLIGATION OF THE BORROWER TO PAY THE PRINCIPAL OF AND INTEREST ON ITS PROMISSORY NOTE WILL, PURSUANT TO SECTION 404(b)(2) OF THE SMALL BUSINESS INVESTMENT ACT OF 1958, AS AMENDED, BE GUARANTEED BY THE UNITED STATES SMALL BUSINESS ADMINISTRATION. The guaranty by the United States Small Business Administration is a full faith and credit obligation of the United States.

Principal and semiannual interest (due on each July 1 and January 1, commencing January 1, 1982) are payable at the principal corporate trust office of The Illinois National Bank of Springfield, Springfield, Illinois, as Trustee. Coupon Bonds in the denomination of $5,000 each, registrable as to principal only, and fully registered Bonds without coupons in denominations of $5,000 or any multiple thereof are exchangeable at the principal corporate trust office of the Trustee. The Bonds are subject to redemption prior to maturity including mandatory sinking fund redemption for bonds having a stated maturity of July 1, 2001, as more fully described herein on pages 7-10

$750,000 11% TERM BONDS Due July 1, 2001, Price 100%

(Plus Accrued Interest)

The Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to certain other conditions including the unqualified approval of legality by Foley, Lardner, Hollabaugh & Jacobs, Washington, D.C., Bond Counsel.

Delivery of the Bonds in definitive form is expected on or about July 8, 1981. Subject to applicable securities laws and market conditions, the Underwriter intends, but is not obligated, to make a market in the Bonds. It is not anticipated that any other secondary market will develop for the Bonds. For information with respect to the Underwriter and its compensation, see "Underwriting" herein.

FIRST WISCONSIN
MILWAUKEE

June 25, 1981

APPENDIX A

DESCRIPTION OF THE BORROWER AND THE PROJECT

X L DISPOSAL CORPORATION

X L Disposal Corporation (The "Borrower") is an Illinois Corporation located in Crestwood, Illinois and is primarily in the waste collection and disposal business, servicing mostly industrial concerns.

The Borrower began operations in 1974 and was incorporated in the state of Illinois that same year and currently employs nine persons.

The project, approved by the Cook County Department of Environmental Control, involves the construction of a rubbish transfer station including compactors and bailers, which physically reduces the volume of residential and commercial refuse deposited into Illinois landfills.

The estimated cost of the project (excluding bond issuance costs) is $612,163.

Mr. HAYES. Thank you, Mr. Schraidt. Now, the final witness of this panel is Mr. Johns.

TESTIMONY OF GARY JOHNS, VICE PRESIDENT AND TREASURER, INTERNATIONAL PROCESSING CO.

Mr. JOHNS. Good afternoon. My name is Gary Johns. I am vice president and treasurer of the International Processing Co., a small company located in Elk Grove Village, IL.

I did not prepare any remarks for this. I was asked the day before yesterday to come down and speak in support of the SBA program, which Mr. Schraidt just alluded to.

Mr. HAYES. May I ask if you could prepare a statement and send it to us?

Mr. JOHNS. I would be happy to.

Mr. HAYES. We would appreciate it very much, and it will be entered into the record.

Mr. JOHNS. All right. We were one of the recipients in the 1980 issue of the Illinois pollution control bonds. We received $170,000. That is being repaid at a rate of approximately 9 percent for the next 20 years, on a monthly payment basis. We are totally up to date with those payments.

My purpose in being here, though, is to say that the collateral value of the pollution control equipment that we purchased in the open market was basically zero. It has no value, so you automatically eliminate the normal channels of financing through the banking system. The system we were able to put in with the funds provided under this program will carry us through to approximately three times our present capacity, and we can add on. We have all the bells and whistles that are necessary to keep the water that is going out to the street, to the MSD facilities, totally clean. We are also reusing every gallon of water that we are taking through the village of Elk Grove, approximately 10 times recycling it through our own plant.

The equipment that we were able to purchase allowed us to cut our sludge hauling costs, alone, by 90 percent. We were paying in the neighborhood of $30,000 a year in just sludge haul, to Browning Ferris or to Waste Management, whoever it was that was handling the sludge. And now we are paying approximately $3,000 a year.

The program is extremely important because of the fact that the equipment that you have to purchase in order to operate within the county of Cook, under the MSD—the Metropolitan Sanitary Commission—is of little value. And every individual company has a different pollution problem; so that you can't say, well, I could—if we were liquidating the company, we can sell it for *x* amount of dollars. It is only appropriate to that particular industry or that particular company.

The MSD has been—the Metropolitan Sanitary District here in Chicago was extremely helpful to us, along with the SBA and the Illinois Pollution Control Authority. I would believe that all businesses want to be good corporate citizens. Being in the metal plating business, it is very difficult because of the high capital intensive nature of the business. We currently have on our statement approximately $600,000 of air and water pollution control. That is the key; that is the key that lets us open the doors. And these dollars are nonincome producing, other than the fact that you can now operate. So, as a small businessman who wants to be a good citizen, who wants his environment—because I live in Cook County, also—I want my environment to be clean and want to be able to go fishing in Lake Michigan and want to be able to play golf and not have a lot of air pollution around. We need programs like this because the cost of borrowing these funds for me is 9 percent for the next 20 years. The prime rate, currently, is 10½ percent. The prime rate was 21½ percent. And as you all know, small businessmen do not borrow at the prime rate.

Gentlemen, thank you for the time. I will be happy to prepare a paper and submit it to you.

Mr. HAYES. Thank you very much.

I just want to say that I have really enjoyed the testimony and I am sure this is shared by the rest of the members of the committee. You can look at my physique and tell that I do not often skip too many meals. And we are approaching the middle mealtime.

I am going to forgo any questions that I might raise of you, in the interest of time. But if there are some questions I may want to submit to you later, I hope I can get some response from you then.

Congressman Mitchell.

Mr. MITCHELL. Thank you. Food will be here a little later. Let me get in a couple of questions, if I may.

Mr. Wedge, how many employees do you have now?

Mr. WEDGE. We have about 12 employees at the moment. We had around 5 or 6 at the time of applying for the last SBA loan. We have doubled.

Mr. MITCHELL. Is there a relationship between the doubling of the employees and the access to the SBA loan?

Mr. WEDGE. Yes, sir. That is exactly correct. In fact, I might go a step further; it would be like 0 versus 12, because we would not be here without it.

Mr. MITCHELL. Mr. Parmley, your testimony was especially intriguing to me. You made several very good recommendations about tightening up the SBA process. And I wanted to tell you that some of them may already have been put into place.

Somehow or other, everybody is screaming about direct loans, but over the last 4 years, the kinds of direct loans that are being made are really bankable loans, except that the banks refuse to do it. It is not just handing people money without checking into their ability to repay. I would be the first to confess that in past years, 10 or 12 years ago, some sloppy direct loans were made, but that was 10 or 12 years ago. Now the direct loan process is very, very tight. And I am glad that you mentioned that in your testimony.

Mr. Patric Jones, it is good to see you again. We go back a long time fighting together for MESBIC's.

Let me play the devil's advocate with you. You use the private sector, right?

Mr. JONES. Right.

Mr. MITCHELL. And you have a really phenomenal success record. Now, if the private sector is really committed, why do you need any Government help at all? You've got some good guys and they're big companies; why don't they just take over this whole thing themselves, out of a general feeling of altruism for minority businesses?

Mr. JONES. Well, first of all, until last August, it only took $500,000 to get a MESBIC license. Maybe $500,000 will make two investments and will not go very far. Now it takes $1 million to get a license, but you get 4 or 5 investments a year. It doesn't go very far. But the Government partnership part of this allows the private sector to take that $1 million and leverage it up to four times, so you get quadruple the bang for your bucks, so to speak. It also then, because of the pricing on the Government funds, allows the private sector to make riskier investments. It's an opportunity to do a social good and make a little profit. Nobody expects to make fortunes at it, but they do generate a little return on it.

Mr. MITCHELL. Thank you. That answers me in part.

Gentlemen, forgive me. I am getting all confused and upset in terms of where we are going in this country. I thought the slogan was "Public Private Partnerships," that is all I have been hearing. And now we have one in the form of MESBIC, and somebody wants to eliminate that. Right?

Mr. JONES. Correct.

Mr. MITCHELL. Maybe I will understand the logic of that, but I swear to God that I do not understand the logic of it now. For a small investment, using Federal funds, you leverage four times the amount, don't you?

Mr. JONES. Four times the amount.

Mr. MITCHELL. That is a public-private partnership. Didn't I hear Mr. Reagan talk about that one time? So it ought to be a partnership. And we've got one. Now he says eliminate the partnership.

Mr. JONES. We can take it one step further, Mr. Chairman. It is a very efficient partnership. MESBIC's have taken down probably in the neighborhood of $93 million since 1978 in Government leverage funds, but our portfolio companies have paid close to $500 million in various kinds of taxes.

Mr. MITCHELL. It was made very, very clear throughout the entire testimony that it is not only a matter of getting a business and keeping it in shape, thereby creating employment opportunities for people and paying taxes, State, local, and Federal taxes.

Again, I heard some talk earlier about revenue enhancement. I do not know why they keep using all those old crazy words like "enhancement." They want more moneys, more revenues coming in. If you do away with this program, then you decrease the potential for revenues coming into the Federal Government.

Is there a psychiatrist in the audience?

Mr. HAYES. I was just reminded by your area of questioning of what came up from one or two of the hearings, particularly for some of our minority businesses.

There is some feeling, and I want to know if it is shared by either of you two gentlemen, that the administration, in the proposed elimination of the Small Business Administration, is being consistent in its attack on civil rights and affirmative action. There is a strong feeling—and we picked it up particularly in New Orleans and in Houston—that this is no accident; that the administration feels that now is the time to call a halt to the growth of minorities in certain business areas.

Now, whether or not this is true, I do not know. But I know that this administration has made its position very clear in other areas of civil rights action. In the field of education, it is quite clear. Some of the proposals they are making are designed to discourage and almost to prohibit people from getting an education. There are recent decisions that indicate that it will become very difficult for people to affirmatively move foward, irrespective of race, sex, or color. I also want to know if there is some feeling that these moves are being made to discourage competition in certain business areas. That cuts across racial lines, particularly with small business. But there is a feeling among some minority businesses that it is by design when they make these kind of proposals.

You gentlemen have made it. Mr. Peoples, you are going into your third McDonald's. But they want to make sure there won't be too many like you who make it. I am just saying that this has been expressed by others, and I would like to know your reaction.

Mr. JONES. Well, like you, Congressman Hayes, I don't know if there is a grand scheme to do that. But let me say that if there were a grand scheme, this is the most efficient and the most brilliant way to do it. It nips minority business growth right in the bud.

Mr. MITCHELL. You should be at the State Department.

Mr. HAYES. Congressman Savage.

Mr. MITCHELL. I just have one other comment, and that was to Mr. Johns.

Again, the logic of what is being undone, or done, just confounds me. The Federal Government imposes certain requirements on small businesses, vis-a-vis pollution control.

Mr. JOHNS. Yes, sir.

Mr. MITCHELL. That is being done by the Federal Government. This didn't come from Mount Olympus or someplace. The Federal Government said, you are going to do something about pollution control, and all of us want to do something about it. And yet, they know full well that the small business community, when it invests in pollution control equipment, that equipment is not marketable. That is not an asset that you can count, really; it is a single purpose unit.

Mr. JOHNS. That's true.

Mr. MITCHELL. And you have got the problem of small business working pretty close to the margin, in terms of its profits, taking on a responsibility imposed by the Federal Government, which really does not add at all to your assets, and yet the attempt is being made to prevent any more financing under the pollution control program. That is Alice in Wonderland. That's what it is.

Mr. JOHNS. That is true, sir.

Mr. MITCHELL. Mr. Chairman, I am through. I guess I am getting more and more excited. My staff told me not to.

Yes, Mr. Wedge.

Mr. WEDGE. I would like to reemphasize the pride that the gentleman on my right and I both share together in the direct loan program. On the set-aside, is it not true that the current bill being proposed by Senator Weicker calls for a total abandonment of the direct loan program?

Mr. MITCHELL. That is correct.

Mr. **Wedge**. And when you look at the SBA Program and you talk to bankers across the industry, certainly there are those exceptions, whereby you have a heavy participation in the SBA Program. But by and large, most of them, do not participate; a lot of them don't even understand it, and most of them don't even want to be involved. They absolutely abhor the program. And for guys like me, who need funds, you talk to these people, you have a nice program; it is written out, you have a beautiful layout, the whole thing; and they look at the numbers and they throw it away because you cannot guarantee it. To me, the one program that makes sense is direct loans because the SBA understands the program.

Mr. **Mitchell**. That is the reason the program came into being. You are not going to live to see the day when CitiCorp is going to say, OK, we want to invest in your franchise. That is not going to happen. They don't have time for us, and that is the reason why we wanted the direct loan program.

Mr. **Wedge**. They have competition, that's the problem.

Mr. **Mitchell**. We have included in my bill a direct loan program. And, gentlemen, we are going to fight as hard as we can to keep it there. Whether we will win it or not, I do not know, but we will certainly put up a fight for it because it is needed.

Mr. **Wedge**. Well, we in the small business community are certainly pulling for you, Congressman. We want that kind of program to continue.

Mr. **Mitchell**. Thank you.

Now I am finished.

Mr. **Hayes**. Mr. Savage.

Mr. **Savage**. Mr. Chairman, despite the differences in our sizes and possibly the differences in our basic metabolism, as regards the amount of food that is required for each of us, let me assure you that I share with you the urgency of the need. Consequently, without any offense to this distinguished panel, I waive any questions.

Mr. **Hayes**. Thank you, Congressman Savage.

I want to say to the panel, your testimony has been superb. There is no question about it. It will be invaluable to us. Your support for the continuation of the SBA is appreciated, but I must say that for the survival of the SBA to come into fruition, you are going to have to let it be known to those gentlemen and ladies on Capitol Hill in both Houses of the Congress about how you feel, so that we may be able to get the kind of vote that is needed to stave off the attempts to eliminate SBA.

Thank you very much.

We will now recess for lunch, and we will reconvene at 1:30 p.m.

[Whereupon, at 1:05 p.m., the subcommittee recessed, to reconvene at 1:30 p.m., the same day.]

AFTERNOON SESSION

Mr. **Savage** [presiding]. This is an official field hearing of the Small Business Committee's Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems. The subcommittee, as well as the committee, is chaired by the Honorable Parren Mitchell, who sits to my immediate right. And the third member here, sitting at my far right, is my State colleague and long-time friend, Congressman Charles Hayes of the First District of Illinois.

May I just note that this hearing comes at a crucial time, when the administration and President Reagan openly seek to abolish the Small Business Administration and abruptly phase out its program—this hearing's main concern.

We hope, incidentally, to adjourn at about 3:30 p.m., and, hence, I urge you who have been kind and concerned enough to appear to testify, to merely summarize the written testimony you have submitted. Be prepared, of course, for possible questions beyond your summation.

And so with the appreciation of this subcommittee, I call to the front table members of our first panel this afternoon; Jerry Jones, Carlton L. Guthrie, Nelson Carlo, Ronald L. Thompson, Manuel Rodriguez, and Yvonne Peak.

Incidentally, kindly be sure that when you speak your microphone is on.

We will first hear from Mr. Jones, president of Sonicraft, Inc., in Chicago, IL.

Mr. MITCHELL. I would just like to indicate that there are two people at the table with whom I have worked pretty closely. Certainly, Jerry is one and Yvonne is the other. These are individuals that I know, who have been persevering in this minority business effort for many many years. I just wanted to personally thank you for your ability to stick with it, despite whether times appear to be at insurmountable odds, and the struggle keeps on going. I just wanted to thank you for the support you have given to me in the past, and thank you for the stick-to-itiveness that you have demonstrated.

Mr. SAVAGE. Mr. Jones.

TESTIMONY OF JERRY T. JONES, PRESIDENT, SONICRAFT, INC.

Mr. JONES. Mr. Savage and members of the committee, I thank you for this opportunity, for you to come all the way out to Chicago.

Mr. HAYES. That short microphone is the one.

Mr. JONES. I thank you for this opportunity to appear before you, and that you have come all the way out to Chicago, IL, to hear from us about our concerns about the changes that the current administration is talking about making to the Small Business Administration, and what I guess is called the Small Business Administration Sunset Act of 1985.

Mr. Chairman, I hope to speak from my experience with the Small Business Administration over the last 14 years. During that time, I worked closely with the Small Business Administration as chairman of the National Association of Black Manufacturers, and also with other groups, such as the National Business League and the National Association for the Advancement of Colored People's black business support group.

During those periods of time, there have been several attempts to move portions of the program of the Small Business Administration into the Department of Commerce. The first that I know about occurred in the mid-1970's, when Stanley Scott, the black special assistant to the President, called a meeting at the White House to move the minority business programs into the Department of Commerce under the OMBE Program, the Office of Minority Business Enterprise.

Minorities that were called at that meeting overwhelmingly dissented at moving the program, and that administration dropped its attempt to move the program.

Again in 1981, shortly after the current administration took office, there was still another attempt to move many of the minority business programs into the Department of Commerce. Again, minorities indicated they were not happy with this move.

So up to this point, we realize that we have been fairly successful in preventing the administrations from moving programs into the Department of Commerce. However, this one seems to be of a little more of a concern to minorities, and many of them felt that there was really no chance that we would stop it. This time, as it has been stated, as all the other times, the reason for the moving of it has been to achieve a greater efficiency and cost reduction.

These are strong arguments if you look at them on the surface. How can you argue against efficiency and reducing costs? And I think the only way that any program makes sense is that you have to realize that in order to have a program that makes any sense at all, you have to have the expertise within the agency and the concern of the agency head to see that the program is effectively administered.

What concerns me, as an owner and a user of the programs, is that I know that at the same time the funding is going to be decreased, and would wonder whether or not we would have effective programs at all.

So that the movement of the Small Business Administration programs to the Department of Commerce and to Treasury, as would be done under the provision of the Small Business Administration Sunset Act of 1985, flies in the face of recommendations of the conference on small business that was called by the Senate Small Business Committee and the President. This conference examined the effectiveness of the SBA and recommended that the agency be given cabinet status rather than transferring the programs to the Department of Commerce.

As a black person, I am also concerned about several other facts. The Department of Commerce has not provided the leadership that I would expect from an agency whose head was designated by Executive Orders under President Nixon, 11458 and 11625, to spearhead the movement of minorities into the mainstream of U.S. economy.

The Office of Minority Business Enterprise was criticized severely as far as its inability to formulate recommendations to increase the effectiveness of MB programs. And I think that is one of the reasons for moving it and changing its name to the MBDA.

The MBDA, likewise, had not been the center of minority enterprise development and has not been effective in promoting continued development for larger minority enterprises, which is what it was supposed to do. Thus, the effort to move the SBA Procurement Systems Program seems to be heading in the direction of lowering the effectiveness of the minority enterprise programs and the general small business set-aside programs.

Still another reason is that the predecessor programs to those now in the SBA, such as the ones that were in effect during the 1940's and early 1950's, such as the small defense war plant corporations, were located in the Department of Commerce. And from reading the history of the SBA, I have learned that the reason the SBA was created was that small business people felt there was a real conflict within the Department of Commerce by having their interests reside there. That gives us good reason why we should be concerned about putting those programs back into that same agency from which they moved.

So the SBA was created to move out the programs and to give independence to the new agency, and attention to it, by having it report directly to the President.

At the time when Government procurement is being criticized for excessive costs or large costs for hammers and other items procured by the military, it does not appear cost effective to eliminate the Agency whose job has been to ensure competition and contracting, and has been placing increasing pressure on Federal buying agencies to break out the purchase of more products and services so they can be performed in lower overhead organizations.

When it is taken into account that fewer weapons systems are going to be purchased by a greater portion of the defense budget and does not appear that anything like dismantling the agency overseeing this procurement program is cost effective. It would appear that you could change the whole budget by just some cost reduction within the Department of Defense, rather than get rid of the SBA. Instead of dismantling the SBA, it needs more resources to see that there is even greater competition, by having more breakouts for small businesses made.

If you look at the fact that something like 60 to 70 percent of the defense budget is done by a very small number of defense contractors, it is obvious that the real competition is at the small business level. And to get rid of the Agency that sees that more work goes to small businesses does not appear to make sense.

Finally, I wish to speak on a well known situation, that of job creation. Small businesses provide over 55 percent of all private sector jobs; create over half of all industrial innovations and inventions and account for approximately 48 percent of the growth of business output, and 43 percent of the gross national product.

The President's 1984 annual report demonstrates the continued strength and viability of the small businesses in the American economy and shows that it is able to adopt and grow in a time of both economic stress and prosperity. And since we are very concerned, particularly in the Chicago area, about jobs, we are most impressed by what we consider the significant finding in the President's report, that highlighted the critical role that small business continues to play as a job creater. Between 1980 and 1982, small business generated all of the 984,000 net new jobs in the United States, according to the President's report. Small businesses produce 2,650,000 new jobs, which offset the 1,664,000 jobs lost by large businesses.

At a recent business development conference, at which I was an attendee, the chairman of a major U.S. corporation indicated that the 6,000 employees his firms expect to hire in the next year, only

10 percent of these new employees will be hired in the United States. It may be interesting for this committee to look into this kind of phenomena. Is this the same situation for many or most large multinational corporations?

Our company currently employs 400 employees. We are located in the inner city of Chicago. In the last mayoral administration, a number of companies met to discuss their development in this area. Of the companies, obviously to all the participants, Sonicraft was the only company presenting plans for growth within the confines of the city. The other firms were located in the suburbs and rural areas. What is important to Sonicraft is that without the SBA support, we would not have been able to develop a company that now ranks seventh in the State of Illinois in purchases from the Federal Government.

In conclusion, Mr. Chairman, it is my belief that the SBA provides critical services to small business. To move programs to the Department of Commerce will put more pressure on small businesses for survival and on our economy. There will undoubtedly be less innovation at a time we will be trying to meet increasing competition from foreign competitors. The phasing out of direct loans will impact minority and other small businesses. When all this is considered, it may be better to phase out the Department of Commerce to obtain cost savings of greater proportions.

[Mr. Jones' prepared statement follows:]

Prepared Statement of Jerry T. Jones, President, Sonicraft, Inc.

Mr. Chairman and members of the Committee, my name is Jerry T. Jones. I am president of Sonicraft, Inc. a Black-owned High Technology electronics manufacturing company, located in Chicago, Illinois, with locations also in Washington, D. C. and Boston, MA. I thank you for this opportunity to appear before you to discuss my opinion on the Small Business Administration Sunset Act of 1985.

Over the past fourteen years I have had considerable involvement with the Small Business Administration. I am a founder of the National Association of Black Manufacturers, (NABM), having served on its board of directors from 1971 to 1978 and as its Chairman from 1974 to 1978. As a result of this involvement, I also served on the National Advisory Council to the Small Business Administration for four years. I currently serve as a member of the Board of Directors of the National Association of Manufacturers (NAM) and serve as a member of its Smaller Business Council Support Group of the National Association for the Advancement of Colored People (NAACP) and have served on the board of directors of the National Business League (NBL). All of these groups have had or have interest in the Small Business Administration.

As I am sure the Committee is aware, there have been attempts in the past ten years to move to the Department of Commerce portions of the programs of the Small Business Administration. In the mid-1970's Stanley Scott, Special Assistant to the President, called a meeting at the White House to persuade Minority Business people to move the SBA's 8(a) Program into the Commerce Department. Minorities overwhelmingly condemned the idea. Again in 1981, the White House started efforts to move the Minority Business Programs from SBA to Commerce. And again minority business people protested the move. The reasons given by the administration for the attempted moves have always been cost reduction and efficiency. At first glance, it appears logical to have all business programs in one agency.

This would seem to make business policy development and administration of programs easier. However, when the situation is looked at closely, it becomes obvious that program effectiveness depends on there being knowledgeable people about the particular industry involved in program administration. The Department of Commerce has been large business-private sector oriented, whereas the Small Business Administration has considerable expertise in government procurement and sub-contracting. Some of the objections to moving the SBA programs have centered around the loss of business due to the lack of expertise in DOC in government procurement and the time it would take to implement regulations pertaining to the transfer. Large business and small business have different requirements for continued success. In some cases competing for the same resources.

The movement of Small Business Administration programs to the Departments of Commerce and Treasury, as would be done under the provisions of the Small Business Administration Sunset Act of 1985 flies in the face of recommendations of the Conference on Small Business that was called by the Senate Small Business Committee, and the President. This conference examined the effectiveness of the SBA and recommended the agency be given Cabinet status.

As a Black business person, I am also concerned by several other facts. The Department of Commerce has not provided the leadership I would expect from the agency whose head was designated by Executive Orders 11458 and 11625 to spearhead the movement of minorities into the mainstream of the U. S. economy. The Office of Minority Business Enterprise was criticized severely for its inability to formulate recommendations to increase the effectiveness of MBE programs. The Minority Business Development Agency likewise has not been the center of minority enterprise development and has not been effective in promoting continued development of the large minority enterprises.

Thus the effort to move the SBA Procurement Assistance Programs seems to be headed in the direction of lowering the effectiveness of minority enterprise programs and the general small business set-a-side programs.

Still another reason is that the predecessor programs to those now in the SBA (such as the Small Defense Ware Plants Corporations) were located in the Department of Commerce.

The reasons for moving the programs out of the Department of Commerce and the creation of the Small Susiness Administration was to give independence to the new agency and attention to it by having it report directly to the President.

At a time when government procurement is being criticized for excessive cost it does not appear cost effective to eliminate the agency whose job has been to assure competition in contracting and has been placing increasing pressure on Federal buying agencies to breakout the purchase of more products and services so they can be performed in lower overhead organizations. When it is taken into account that fewer weapon systems are purchased by a greater portion of the defense budget, it does not appear that anything dismantling the agency overseeing this procurement program is cost effective. Instead of dismantling the SBA, it needs more resources to see that there is even greater competition by having more breakouts to small businesses made.

Finally, I wish to speak on a well-known situation, that of job creation. Small businesses provide over 55% of all private sector jobs, create over half of all industrial innovations and inventions, and account for approximately 48% of the Gross Business Output and 43% of the Gross National Product.

The President's most recent annual report on the State of Small Business, submitted to Congress in March 1984, demonstartes the continued strength and viability of small business in the American economy and its ability to adopt and grow in time of both economic stress and prosperity.

Perhaps the most significant finding in the President's report highlighted the critical role small business continues to play as a job creator. Between 1980 and 1982, small businesses generated all of the 984,000 net new jobs in the United States, according to this report. Small business produced 2,650,000 new jobs, more than offsetting the 1,664,000 lost by larger businesses. The service sector accounted for about half the employment increase.

Small business also led the way in job creation during the recovery, according to the President's report. In six major industries for which small and large business-dominated sectors could be identified, small business dominated industries registered a net employment gain of 2.6% from September 1982 to September 1983. Large business-dominated subsectors showed an employment gain of only 1.2%.

At a recent business development conference at which I was an attendee, the Chairman of a major U. S. company indicated that of the 6,000 employees his firms expects to hire, only 10% of these new employees will be hired in the U. S. It may be interesting for this Committee to look into this phenomena. Is this the same situation for many or most large multi-nationals?

Sonicraft, Inc. currently employees 400 employees. We are also located in the inner city of Chicago. During the last mayoral administration companies met to assess the status of high-tech companies in the Chicago area. One point becomes obvious to the participants. Sonicraft was the only company presenting plans for growth within the confines of the City. The other firms were located in the suburbs and rural areas. Without the support given us by the SBA, we would not have been able to develop a company that now ranks seventh in the state of Illinois in purchases from the Federal Government.

In conclusion, the SBA provides critical services to small businesses. To move programs to the Department of Commerce and Department of the Treasury will put more pressure on small businesses for survival and on our economy. There will undoubtedly be less innovation at a time when we are trying to meet increasing competition from foreign competitors. The phasing out of direct loans will impact minority and other small businesses. When all is considered, it may be better to phase out the Department of Commerce to obtain cost savings of greater proportions.

Mr. **Savage**. Thank you, Mr. Jones.

Chairman Mitchell.

Mr. **Mitchell**. Mr. Chairman, I would like to recommend that we hear from all the panelists and then present questions to all of them.

Mr. **Savage**. Let's call Nelson Carlo, president of Abbott Products Inc., Chicago, IL.

Mr. Carlo.

TESTIMONY OF NELSON CARLO, PRESIDENT, ABBOTT PRODUCTS CORP.

Mr. **Carlo**. Mr. Chairman, members of the committee, ladies and gentlemen, my name is Nelson Carlo. I am president of Abbott Products Corp., a minority owned and managed firm in Illinois, manufacturing——

Mr. **Savage**. Excuse me, Mr. Carlo. Because of the shortness of time, the chairman of the committee, Congressman Mitchell must leave in little less than an hour and we want him to hear your testimony, may I suggest that rather than read it—and we all have copies—you simply summarize and then, through questions, perhaps, we can bring out other points.

Mr. **Carlo**. I will summarize as much as I can in this.

Mr. **Savage**. Go right ahead.

Mr. **Carlo**. I wish to express to you today my comments on the Small Business Administration.

If I had been asked to present my views 3 years ago, I probably would have volunteered to put the padlocks on the doors of the agency. Now, let me clarify that statement.

I was on the verge of a financial crisis 3 years ago, seeking help with everyone, banks, domestics, SBIC's, SBA, even the Devil if he had made an offer. Unfortunately, because of a fear based on allegations that were made about fraudulent transactions, no one was about to volunteer financial assistance to Abbott Products. I was forced to regroup and develop a plan that would allow us to reorganize under chapter XI or the bankruptcy court. I shut my doors and laid off 180 employees. Our doors were completely shut from October 1982 until March 1983. During that period, I had to prepare a projection of financial forecasts, reorganize my plant, move machinery, fight with unions; pacify creditors, both secured and unsecured, and be in court at least once a week. And during all that time, I had to find an investor that would loan the money to begin operations.

Friends were very few and far apart during those months. The Small Business Administration decided that I had a viable business plan and, based on the cash flow projections, we stood a good chance of a successful reorganization. The regional and district staff began to work with me in making sure that we would not lose any of our present contracts. We had a few battles with the Department of the Army, Defense General Supply Center, the U.S. Attorney's office, and I am sure the SBA had its own internal battles with the Inspector General's office. And I know the regional office was in the hot seat and all eyes were on Abbott Products.

We reopened our doors in March 1983, bringing back 10 employees. We began working on contracts that we knew would generate a cash flow within 15 working days. Again with the help of SBA, we were able to negotiate with DCAS and the Department of Defense, and reduce percentage payback on progress payment due to the Government. At that time, we owed the Government $2,200,000 of progress payments that were made to our company. That enabled us to begin production and pay back progress payment and generate a cash flow. Our first month's production totaled $136,000. We continued bringing in workers as we started on other contracts, using the same procedure on progress payment and building up our cash reserve. Everyone put in a 200-percent effort.

While we continued our growth, SBA district business development specialists were working hand in hand with me in trying to identify new contracts and look into other areas that would help develop our company. Month by month we progressed, delivering on time, with the highest quality standards. As we progressed, we again had another battle, this time with the U.S. Navy. With continued support from the SBA, we convinced them that it would be in the interest of all if we be allowed to subcontract a missile container contract.

We continued to work, progressing and building back our credibility with the creditors, the banks, the various government agencies and the watch dog. In August 1983, 18 months after reopening our doors, the bankruptcy court approved our reorganization plan, and Abbott Products was no longer a debtor in possession.

In my opening remarks, I mentioned my opinion of the Small Business Administration 3 years ago. I must admit I have had a change of heart. Not only did SBA support me when I was on my back, but it forced me to once again become the entrepreneur it financed 10 years ago. I was forced to once again take over my business, become resourceful, innovative. I guess they decided they had given me all the financial assistance through two loans, and knew that it was time to put me to work. And that, they did.

I did receive the full benefit of many SBA assistance programs and, like most people, took it for granted and expected to be bailed out. You can imagine the shock I experienced when I was informed in writing that the financial offer had gone dry and we had to go back to basics.

Had SBA abandoned me, these would have been the consequences; $18 million in contracts would have been lost, $2,200,000 in progress payments would have been lost, $1 million to banks would have been uncollectible, and $3 million to unsecured creditors would have been uncollectible, 180 jobs directly with my company, Abbott, were eliminated, and God knows how many indirect jobs would have been lost. Personally, I would have lost my home, my belongings, and my credibility.

With the SBA support, all contracts were completed, $2.2 million progress payment was repaid, a suitable 5-year plan to pay the bank was negotiated, all unsecured creditors were satisfied, and all are doing business with us again on open terms, 90 jobs have been saved, and many more indirect jobs were created because we became smarter in distinguishing what we could do in-house efficiently for what we could have produced by subcontractors. And I once again established my credibility as a successful businessman.

I am sure that my story is only one of many thousands of businesses without the assistance of the Small Business Administration. This alone, ladies and gentlemen, is the only reason necessary not only to keep the Small Business Administration, but to build it stronger as a permanent independent agency that represents and speaks on behalf of 10 million small businesses.

Thank you very much.

Mr. SAVAGE. Thank you, Mr. Carlo.

Chairman Mitchell.

Mr. MITCHELL. I will hold my comments until later.

Mr. SAVAGE. All right.

Next, Mr. Carlton Guthrie, executive vice president of James H. Lowry & Associates of Chicago, IL.

Would you, Mr. Guthrie, pull that mike close to you? Thank you.

TESTIMONY OF CARLTON L. GUTHRIE, EXECUTIVE VICE PRESIDENT, JAMES H. LOWRY & ASSOCIATES, CHICAGO, IL

Mr. GUTHRIE. Mr. Chairman, Members of Congress, ladies and gentlemen, it is with pleasure that I am here today in order to offer testimony to the House of Representatives Subcommittee on SBA and SBIC Authority; and, also, to represent the firm of James H. Lowry & Associates.

As executive vice president of James H. Lowry & Associates, I feel very strongly that without the support of the SBA and the 8(a) program, our firm would have been unable to grow to its present size and, more importantly, to make the contribution to society that it has over the past 10 years.

Mr. SAVAGE. Excuse me, Mr. Guthrie. Are you familiar enough with your testimony to simply summarize it, since we have a written copy?

Mr. GUTHRIE. Certainly; no problem at all.

Mr. SAVAGE. I would appreciate it because of the time. We have one more panel to follow this one. Your testimony will be in the record, of course. Would you just summarize it for us?

Mr. GUTHRIE. Certainly.

The key point to make is that the firm of James Lowry & Associates started out as a one-person operation and, essentially, would probably have existed in the manner of many small consulting firms, with essentially a very small staff working on small projects. It was through the assistance of SBA and, specifically, the 8(a) program that the firm was able to develop expertise that allowed us to establish credibility and capability, which we have since leveraged, into a substantial and well founded firm.

Upon getting the first 8(a) contract in 1979, we were a small firm of about $700,000. Within 4 years, we had grown to a firm of $3.4 million. And the composition of that business transformed dramatically, from primarily Federal Government oriented to private sector, such that by 1983, over half the business that we did was private sector business. Much of the business we were doing was based on the kinds of skills, products, and capabilities that we established through the 8(a) program. And I also add that many of the projects that we had been working on with the private sector had been in the area of developing minority businesses' capability of providing goods and services to private sector corporations.

From our perspective, the long-term future of minority business development hinges greatly upon the ability of private sector corporations and large municipal organizations, such as the city of Chicago, to provide the kind of incentives and direction to take minority businesses to the state of being a substantial entity within this economy. However, it is also our point of view that the Federal Government can continue to play a very solid role in that. The evolution of our firm was really based on the basis of working with the Federal Government, and that is what got us to the point where we could deal with large corporations and major municipalities. I think that the Government will be doing a great disservice to take out this firm underpinning which the SBA has provided, because there are quite a few firms that still need that kind of boost in order to develop the capability to track these other markets, which will ensure their long-term viability.

That is, in essence, what I wanted to say. One other point: A number of consultants who have worked for our firm, have since left, and started their own businesses. These individuals probably would not have had an opportunity to do that unless they had gone through some of the experiences that we did in working with the SBA. And that particular process is one that I think the SBA should highlight; the fact that the impact of SBA assistance to minority business has an exponential effect, in that many young entrepreneurs are trained and, from that point, can continue to contribute to society.

[Mr. Guthrie's prepared statement follows:]

PREPARED STATEMENT OF CARLTON L. GUTHRIE, EXECUTIVE VICE PRESIDENT, JAMES H. LOWRY & ASSOCIATES, CHICAGO, IL

Good morning ladies and gentlemen. It is a pleasure to be here today to offer testimony to The House of Representatives Subcommittee on SBA and SBIC Authority and to represent the firm of James H. Lowry & Associates. As the Executive Vice President of James H. Lowry & Associates, I feel very strongly that without the support of SBA and the 8(a) program, our firm would have been unable to grow to its present size, but more importantly, to make the contribution to society it has made over the past ten years. In many ways, the evolution and the growth of our firm is the essence of what the 8(a) program was designated to accomplish. Briefly, I would like to address this and other related points.

I. JHL Perspective

James H. Lowry & Associates (JHLA) was founded by its President, Jim Lowry, in 1975. After eight enlighting years at McKinsey & Company, the prestigious, international top management consulting firm, Mr. Lowry felt he had learned the "trade" of management consulting. With his profit sharing savings, one typewriter and high expectations, he started his business in a one room suite. With the help of his ex-employer and two contracts from the City of Chicago, the firm of JHLA grew from its embronyic beginnings within a year. However, dramatic growth for the firm did not occur until 1979 after the firm received its 8(a) designation from the SBA. With the help of the SBA, both in Washington, D.C. and in Region five, we were able to grow in size from five to fifty-five persons and to increase revenue from $750,000 in 1979 to $3.4 million in 1983. During that period, the firm conducted several consulting engagements through the 8(a) program for a variety of federal departments and agencies, including the

- SBA
- Department of Commerce
- Department of Education
- Department of Labor
- Department of Transportation
- General Services Administration
- Peace Corps
- Federal Emergency Management Agency

In many ways, this period of escalating 8(a) involvement was the most critical period in the firm's history in that we were able to reap lasting benefits from this involvement.

¶ First, the firm was able to establish a solid financial base. Prior to our attaining 8(a) status, the firm's financial position was precarious due to the paucity of contracts of any size and the lack of continuity in business. As a result, the firm led a feast or famine existence until through the 8(a) program we were able to secure a steady stream of what to us were major contracts. These contracts allowed us to cover our overhead on a continuous basis, freeing the management team to focus on other areas of importance to the firm and to our client base.

¶ Second, JHLA gained national prominence in the field of Minority Business Development (MBD) and in manpower development. To this day, we still receive numerous requests for copies of our report "MBD in the 80's" in which we laid out a ten year MBD plan for the Department of Commerce. Our evaluation of the Magnet Schools Program for the Department of Education, one of numerous educational/human services engagements we have conducted, established JHLA as the preeminent firm in developing standards and strategies for educational institutions, and is a classic in the field.

¶ Third, we were able to design and develop a unique set of products, services, and skills which we have quite successfully applied to other markets. For example, our current Minority Match product, which we have utilized with ten Fortune 500 Corporations as well as the City of Chicago, was a direct outgrowth of work which the firm did with both GSA and the SBA in developing minority business procurement programs.

¶ Fourth, through our 8(a) involvement, JHLA established offices in three cities, Washington, D.C. and Oakland California as well as Chicago. The ability to provide national coverage has been one of the firm's major attractions to our private sector clients.

¶ Fifth, we were able to train a solid cadre of professional consultants, some of which are still with the firm and others that have moved on to even more rewarding pursuits.

The benefits of our involvement with the SBA have had a lasting impact on the direction and the future of the firm. During our years of heavy 8(a) involvement, our mix of business was heavily skewed toward public sector revenue as a percent of total revenue. For example, in 1980 our first full year in the program, 42.5% of our total revenues were attributable to 8(a) contracts, with other federal government agencies contributing another 22.1% and private sector clients contributing only 5.0%. By 1983, however, the firm was well positioned to penetrate the corporate market due to the skills, capabilities, credibility and contracts awarded earlier. Primarily through marketing minority business development and human resource development products, JHLA has been able to secure several contracts with major corporations such as Pepsi Co, Frito Lay, Time, Inc., and Strohs. By 1983, private sector concerns accounted for 45.6% of our revenue, with state and local entities representing an additional 33.4% of total firm revenue.

We are proud of our record as a entreprenaurial business and we are equally proud of it as an institution dedicated to community and public service. We wish we could say this achievement was made solely on the basis of our expertise and the quality of service, but we can not. Our success was a combination of luck, hard work, quality service and, to a great degree, high level connections that Jim Lowry and other key members of the firm had established at McKinsey & Company and the Harvard Business School. Because of the firm's well established, pre-8(a) program private sector connections, presenting JHLA as a model might be a bit misleading. In many ways, we are unique as a firm, and in designing federal or even state programs, one should not design for the rule not the expection.

The average small business, in particular the average small minority and women-owned business, has significant barriers confronting it and these businesses desperately need SBA and the Department of Commerce (DOC) assistance. The three major barriers -- lack of access to markets capital, and managers -- are directly addressed by various SBA and DOC programs, all of which would be severly impacted by the proposed elimination of the SBA. While the two other major stakeholders -- private sector corporations and major municipal governments -- have accelerated their involvement in each of these areas, their prerogatives pale in comparison to those of the federal government. The current de-emphasis of the federal government toward promoting Minority Business Development (as is evidenced by trends in federal MBE procurement and financial assistance) has already had a noticeable effect on the welfare of several minority businesses' and the overall impact of further reducing federal support would be catastrophic, given the current stagnant state of minority business development. For example, black-owned businesses market share of total business receipts has declined from 0.32% of sales of all businesses in the country to an estimated 0.26% in 1984. The receipts of black businesses represented 13.5% of all money income received by the black community in 1969; this percentage had declined to 7% by 1984.* These trends can only be reversed by, at a minimum, maintaining the federal government's role in supporting small and minority business development, allowing the initiatives of the corporations and major cities the time and support that they need to flourish.

In summary, from the JHLA perspective, our firm would not be where it is today without the support of the SBA and individuals such as Gary Smith, Jim Gordon, Howard Norris, Bob Kyler, and Jack Smith who have worked diligently with us and for us over the years. Several former JHLA consultants have since spun off and established their own businesses as testimony to the fact that supporting a small business such as ours can pay multiple dividends to society. Hopefully, in evaluating the contribution that the SBA has made, consideration will be given to the exponential impact that the organization has had on firms such as ours. Thank you sincerely for the opportunity to express a point of view on this issue.

* Black Enterprise, April 1985, p37

Mr. SAVAGE. Mr. Guthrie, you indicated that the city should play an increasing role with regard to the development of minority businesses?

Mr. GUTHRIE. Yes.

Mr. SAVAGE. Could you get a little more specific?

Mr. GUTHRIE. As I see it, there are three major stakeholders, people who would stand to benefit from developing minority businesses: The Federal Government, major municipalities, and corporations.

I think if we look at the composition of most of the municipalities in the country today, we will note that they are heavily minority, and also in need of substantial economic development. It is in the best interest of the major cities of today to develop minority businesses because, in essence, what they are doing is increasing their tax base, reducing the need for transfer of payments to the residents of the cities. They are building a much more solid base with which to determine the economics of the city.

I think the trend is definitely there, but, as it stands now, there is going to have to be a lot more support, both internally within the cities and the Federal Government, to help the cities play that kind of a major role.

Mr. SAVAGE. One last question. If this trend continues to develop, how will it impact on the Federal Government programs? Will it relieve SBA of the essentiality of some of its programs?

Mr. GUTHRIE. Ultimately, I think they could work hand in hand. It could lessen the load on the SBA. From my perspective, major municipalities—and there are quite a few who are doing it—are providing financial assistance and technical assistance along the order of what the SBA is now doing. And we propose that they work hand in hand with the SBA and the Department of Commerce on some of these types of programs.

Another perspective that I would like to add is, from my point of view, the private sector is probably the best vehicle for really promoting and encouraging minority business development because the profit motive is really imbued in the private sector. I think that the SBA can provide a supportive role, ongoing, to assuring that minority businesses ultimately develop the capability to attack that particular market.

Mr. SAVAGE. Just one more question. Under present circumstances, do you think private corporations would do this more than they had in the past? Obviously, historically, one of the reasons for the evolvement of minority enterprise development programs and other assistance was precisely because the large corporations just did not give the minority enterprises a fair opportunity. If the Reagan administration succeeds in its present drive to take off the pressure and reverse affirmative action programs, quota, and set-aside requirements, corporations will have less pressure from the Government, and now actually have less pressure from the Government, to be fair with minority enterprises. To suggest that this is a time when we should expect minority enterprises to depend more upon the private sector, how does that——

Mr. GUTHRIE. My point is that I think there should be a partnership. When you look at statistics on minority procurement, Federal Government versus private sector corporations, you will notice that the trend over the past 4 years is that the Federal Government has decreased the amount of business, in terms of percentage, with minorities; while major corporations are increasing the amount of business they do with minorities expedientially. And it is not, in essence, a case of the Federal Government putting a whole lot of pressure on these companies to do it, because the pressure is not there. The pressure on the corporations today is economic. Minority businesses, as well as the minority community contribute substantially to the economic welfare of major corporations, and that is the pressure that is now forcing many of them to respond to minority perspectives.

The point, though, is that what they are doing, although substantial, relevant to historical trends, is a drop in the bucket, and that without the pressure of the Federal Government, I would wager that the advances that we have seen over the past few years would ultimately subside.

Mr. **Savage**. Mr. Jones, I gather you want to respond?

Mr. **Jones**. If I might, Mr. Chairman. As you would find in almost any form, there is a likelihood of some differences of opinion. I would suspect that if you talk to the people here that are running other kinds of businesses, they might disagree with our colleague here.

I certainly don't agree that the private sector is the best place. And I do feel that that is a problem I see, as a matter of fact, an attempt to move the Small Business Administration. I consider that probably as being an effort by the larger businesses within the private sector to stop the forward motion of small companies.

Mr. **Savage**. This is Mr. Rodriguez?

Mr. **Rodriguez**. Yes, sir, Mr. Chairman.

I have presently in my presentation some figures which do not agree with this gentleman, my colleague's statement here.

Mr. **Savage**. To expedite things, perhaps I could ask my colleagues to ask what questions they have, and then let me call on you next.

Chairman Mitchell.

Mr. **Mitchell**. Mr. Chairman, I will not ask questions now. I feel more comfortable hearing from everyone, and then perhaps——

Mr. **Savage**. OK. Manuel Rodriguez is president of——

Mr. **Rodriguez**. I am president of R&D Development, sir.

Mr. **Savage**. And that firm is also in Chicago.

Go right ahead; proceed.

TESTIMONY OF MANUEL RODRIGUEZ, PRESIDENT, R&D DEVELOPMENT, INC.

Mr. **Rodriguez**. Thank you, Mr. Chairman, Congressman Hayes, and other representatives for allowing me to voice my opinion and the opinion of our organization, the Hispanic American Construction Industry Association [HACIA], regarding the proposed elimination of the Small Business Administration.

My name is Manuel Rodriguez. I am president of R&D Development, Inc. I am a general construction contractor who has performed work in the area of welding, insulation of pipes, and in the mechanical field for various local, State, and Federal projects.

My corporation has received numerous letters of recommendations from projects which our firm has completed in areas where the Small Business Administration, through the 8(a) program, were very helpful in helping me acquire these contracts.

I started my company on March 23, 1977, and at that time, my company's first year's sales were $15,000, and I employed a total of 4 persons in the Chicago area. Since that time, my company presently employs 35 workers. I also have been successful in sponsoring 23 minorities into the Pipefitters Union, something that no other firm, majority or minority, has ever accomplished. My sales at the present time are at the $3 million mark, and I project that I will within the next 2 or 3 years go to $5 or $6 million.

I am also past president and founder of the Hispanic American Construction Industry Association, which is the only voice for Americans of Hispanic descent in construction or a construction related industry here in Chicago and surrounding areas. Our principal office for this organization is presently located in Chicago. I am also past president and founder of the National Hispanic Association of Construction Enterprises, whose principal office is located in Washington, DC.

This background of dealing with the Small Business Administration and being a small businessperson, I think I can truthfully present to you a strong argument against the abolishment of the Small Business Administration. In my years of dealing with the Small Business Administration, I have come to know the help which is needed to be successful in our present state of affairs. With the high bankruptcy rate that we are now experiencing in the minority business community it is imperative that we have a Federal Government agency, such as the Small Business Administration, to continue to assist us. Based on my research of the census data, from 1972 to 1977, we are very alarmed about the trend for minority businesses in Chicago during the 1980's. For example, during this 5-year period, 1972 to 1977, black neighborhoods in the Chicago land area lost 2,365 firms. Chicago Hispanic businesses suffered similar losses with a drop of 200 firms. You can tell by my chart there, it shows the percentages.

CHICAGO BLACK AND MINORITY BUSINESS CHANGES CENSUS

[A=1972; B=1977]

Subject	All firms	Percent change
Black	(A) 9,718	−24
	(B) 7,353	
Hispanic	(A) 1,576	−13
	(B) 1,375	

My point in talking about the statistics is to show the past and the continuing adverse economic circumstances that minority businesses continue to work under, even at a time of economic recovery.

During fiscal year 1982, the Federal Government purchased approximately $159 billion in goods and services from the private sector. Small business—and I do mean small business, not minority—received $27.1 billion, or 17 percent of the procurement total. Minority firms through the country obtained about $2.1 billion in Government sponsored work. As you can see from these numbers, minority businesses, through the SBA 8(a) program, are not sharing in the majority of work available, even in the Federal small business procurement section.

Now I would like to speak on the 8(a) program within the Small Business Administration. There are certain accusations from nonminorities that the 8(a) program is a give-away program to minority enterprise. This, I can assure you, is totally wrong. For instance, as an 8(a) contractor, I have had C-contractors in disciplines which are not owned or controlled by minorities. One of the biggest critics of the 8(a) program has been the Association of General Contractors, whose strong lobbying efforts have been trying to eliminate any program that deals with minorities. I, as a minority 8(a) contractor, if I am fortunate enough to receive an 8(a) contract, must respond in getting prices and disciplines that are controlled by the same members who criticize the 8(a) program. These nonminority contractors will find out that this is an 8(a) negotiated contract and will increase their price. In some instances, that makes us noncompetitive with the Federal agency's proposed fair market price. If you look at the history of the 8(a) contractors, who have received contracts, and ask them to list their subcontractors on these projects, you will find that 90 percent of these subcontractors are nonminority.

Let's remember that the negotiated 8(a) contract for minorities are a drop in the bucket compared to the large negotiated contracts of General Dynamics, Lockheed, Northrop, and other majority-owned corporations, so successfully accomplished with the Federal Government.

I, for one, would like the Association of General Contractors to take issue with these large corporations, just like they are taking issue against the Small Business Administration 8(a) Program.

My point is that we, in turn, produce work for those critics which have positive economic input on the total community. We purchase goods and services from these businesses and we pay taxes to support local, State, and Federal agencies.

Instead of seeking to eliminate the Small Business Administration, there are certain issues that must be strengthened in the area of Public Law 95-507 in regard to enforcing the implementation of this law. The Small Business Administration has helped contractors and small businesses. SBA has not just helped minority small businesses. We need to strengthen SBA procurement authority, not dilute or eliminate the total program.

Conclusions, recommendations: It has taken 8 years for Manuel Rodriguez to learn the network intricacies regarding the SBA rules and regulations in dealing with nonminority contractors. Had it not been for the 8(a) program, I can guarantee you that I would not have been here today testifying on behalf of an Hispanic American Construction Association. As I travel across the country and meet other minority contractors and, at the same time, find out what helped them in being successful, the biggest help came directly or indirectly from programs that the Small Business Administration has in effect at the present time. The elimination of the SBA, as proposed by OMB, is against all principles of free enterprise which help to make this country strong.

In conclusion, the only advocate we have for economic parity among the large majority contractors and the small minority contractors is the Small Business Administration. If you eliminate this program, I will guarantee you bankruptcy failure among the minority contractors.

Thank you, Mr. Chairman.

Mr. SAVAGE. Thank you, Mr. Rodriguez.

Ronald L. Thompson of the General Railroad Equipment & Services, Inc., of East St. Louis, IL.

TESTIMONY OF RONALD L. THOMPSON, PRESIDENT, GENERAL RAILROAD EQUIPMENT & SERVICES, INC.

Mr. THOMPSON. Thank you. Mr. Chairman, Members of Congress, ladies and gentlemen, in the interest of time, I will try to briefly summarize my view. And I think it is a very simple one.

I want to echo a theme that my colleague, Mr. Jones, began, not focusing on the mission of the 8(a) program, which others have so eloquently defended, but to look at this thought of transferring the 8(a) program to the Department of Commerce.

In my opinion, the issue is the sensitivity of the Government officials who will administer the 8(a) program. If we can believe that the administration is sincere in not attempting to dilute the mission, then the real issue is who is going to administer it.

The people who are sitting in the rear of this room are the real reasons that I am here today. Unfortunately, Mr. Richard Durkin is not here in the room, I don't believe, but let me state for the record that it is my belief that there can be no finer regional administrator of the Small Business Administrator than the administrator that we are so fortunate to have here in region 5.

People like Dick Durkin, Fred Herlocker, Jim Gordon, at the regional level, and in our district office, people like Jack Smith, Bob Kyler, Vivian Abraham, Leonard Harbin, and Mike Kowalesic, who are sitting in the back. One of the problems when you start naming names is that you leave out somebody. But these are the people who work so hard, who have devoted so much of their professional careers to supporting those of us sitting at this table.

If you shift the program to the Department of Commerce, we have got, as business people, a requirement to learn a new set of rules, to educate a new set of players, and when faced with the certainty of graduation from the program, we have to take our most scarce resource, our time in the program and spend it in a very nonproductive task.

I recognize from the 2-plus years that our firm has participated in the program that one needs to understand the intricacies of the rules and regulations and really learn how to make the program work for you. It took at least a year for us, after receiving certification—it took us 26 months to get certified—it took us another year almost before we got our first contract. That was not because somebody was sitting down on the job; it does take time; it is a time-consuming process.

To put us all back at square 1, when we have only a maximum of 5 to 7 years to participate, and to force us to take another year or 2 years to fritter away, trying to bring somebody else up to speed is, in my opinion, a devastating impact on our companies.

Again, in summary, we are very fortunate in this district and in this region to have the support of civil servants who are in the finest tradition of public service. Their morale has suffered because of the attacks on SBA by the administration. I think it is imperative that Congress send a clear and concise message that their hard work is not in vain; it will be rewarded with the continuation of the program. Thank you.

[Mr. Thompson's prepared statement follows:]

PREPARED TESTIMONY OF RONALD L. THOMPSON, PRESIDENT, GENERAL RAILROAD EQUIPMENT & SERVICES, INC.

I would like to thank the Chairman, The Honorable Parren Mitchell, and the other members of this committee for the opportunity to appear before it and to present my views on the continuation of the Small Business Administration. I have viewed with alarm the Administration's proposal to eliminate the SBA in its present form and to continue only a part of its mission by transferral to other agencies. I speak today in favor of House Bill H.R. 1281 to preserve the SBA in its present form and with substantially its present mission. I will confine my comments in the main to the mission of the SBA in assisting disadvantaged business enterprise through the operation of its Section 8(a) Program.

I have been following the development of the Section 8(a) Program virtually since its inception. While on the faculty of the graduate business school at Old Dominion University in the mid 70s, I provided consulting services and strategic planning to a number of companies certified to participate in the 8(a) Program. In 1981 having purchased General Railroad Equipment & Services, Inc., I applied for certification to participate in the section 8(a) Program as a manufacturer. General Railroad's application was approved in March 1983. Since that time I have had an opportunity to witness developments in the program as a participant. My comments regarding the program emanate from these experiences over the past decade.

The mission of the Small Business Administration as it relates to the section 8(a) Program is very clear. That mission is to 1) assist in the development of businesses owned by disadvantaged entrepreneurs by providing opportunities to contract with the Federal Government, 2) financial assistance to support those contracts, and 3) managerial and technical assistance to those same firms. By vigorously pursuing this mission, the SBA has become a beacon of opportunity for those disadvantaged entrepreneurs who seek opportunities for providing goods and services to the Government.

One need only look back two decades to find a time in which the Federal Government had virtually no business dealings with the disadvantaged business sector. Despite being a Government of all of its people, our Federal Government failed to include this important segment of our business community in its dealings. It was recognized that barriers existed which made it difficult for such businesses to effectively penetrate the world of government contracting. Although, these barriers were in most instances not formal or codified, they were, none the less, real and formidable. The advantages that other businesses had in dealing with the Federal Government stemmed from both the "old boy network", and the advantages of incumbency. The development of the section 8(a) Program signalled the commitment of the Federal Government to broaden its base of suppliers. Firms historically excluded from Federal Procurements have been given the opportunity to develop supplier relationships with the Federal Government. The success of this effort has been impressive over the last fifteen years. The program was responsible for $2.7 billion in Federal contracts in 1984 up from an average of $166 million annually from 1968 thru 1976. Such impressive results clearly merit continuation of the program.

One of the important features of the 8(a) Program is that it involves negotiated procurements. The Federal Government purchases over $160 billion in goods and services annually. Of that, $120 billion annually, are negotiated on a noncompetitive basis. The 8(a) Program has been largely responsible for disadvantaged firms becoming involved in negotiating procurements, a segment too vast for exclusion of disadvantaged firms. I am not attempting to argue the merits of negotiated versus competitive procurements, but rather recognizing the fact of the existence of both contracting forms. The minority and disadvantaged business entrepreneur should not be precluded from any markets and be restricted only to those which allow full and open competition.

In developing the 8(a) Program, Congress recognized that learning to successfully conduct business with the Federal Government is a developmental proccess. The complexity of the federal procurement process is legend. From the decentralization of procurement activities to the need for technical knowledge of government standards and specifications, breaking into the federal procurement system entails substantial effort and risks. For those who have been historically excluded from this process, some assistance is critical if they are to develop into effective and successful suppliers. This is recognized by the section 8(a) Program and indeed by the existence of Small Business Procurement Representatives in the procurement arms of all Federal Government activities. These programs serve to assist businesses in successfully negotiating that maze called federal contracting. For its part the 8(a) Program has developed a capacity to work intensively with small businesses in its developmental function.

The Business Development function of the 8(a) Program works to ensure that all of the elements required for success are present. That Business Development function includes providing capital support without which developing businesses cannot acquire the technology necessary to become competitive. Not only is fixed capital available through this program but also working capital in the form of advanced payments. General Railroad has benefited directly from the Business Development aspect of the 8(a) Program. In 1984, General Railroad received an 8(a) contract for the manufacture of Sea Shed Shipping Containers that necessitated the acquisition of additional productive capacity. We were able to reopen a plant here in Northern Illinois that had been closed by its former owners two years previously. We have returned almost one hundred jobs to a county which had loss 20 per cent of its employment in the previous five years. We would not have been able to do so without the long-term capital assistance provided by the SBA through its Business Development function. The capital enabled us to compete efficiently and within the quality expectations of the Navy.

The Business Develop mission of the 8(a) Program is not limited to financial assistance. It extends to include the provision of management and technical assistance. Such assistance can be the critical difference between success and failure. As I have previously stated, the federal procurement process is exceedingly complex. To understand it requires considerable study. Through its Business Development mission the Small Business Administration offers expert consultation regarding the federal procurement system. It provides the 8(a) contractor with a friend and supporter who can serve as an ally in the procurement process. It is important to note that the very nature of procurement activities involve competing interests on the part of the buyer and the seller. While such competing self interests are intrinsic to procurement, it can be very damaging to new enterprises which operate with a lack of sophistication with respect to the rules and regulations which govern federal procurement. Contracting officers are responsible for pursuing the interests of the Federal Government and cannot ignore this responsibility when contracting with small and disadvantaged firms. The SBA can, however, provide a different vantage point to this process. Their efforts are aimed at making sure that their clients, the 8(a) firm, be well prepared and represented in both the conduct of negotiations and throughout the implementation of contracting activities. The result is to ensure that both the buyer and the seller have a clear understanding of the contractual responsibilities and obligations and that the seller has a reasonable chance of successfully fulfilling its obligation at a profit. This is a feature unique to the 8(a) Program since other procurement officials are not charged with the responsibility of considering the interests of the seller. Because of the SBA's role, the likelihood of successful supply relationships is thus enhanced as well as many potential failures avoided.

Management and techncial assistance does not stop with that aimed at a fuller understanding of the federal procurement process. It extends into those managerial and technical activities that confront a growing small business. We at General Railroad have benefited from such techncial expertise. We have been provided with technical expertise in the form of consultants who have assisted our staff in answering the technical challenges that confront us as manufacturers of sophisticated equipment. I think that this feature of the

8(a) Program deserves more funding and emphasis in the future.

While the mission of the agency as it relates to the 8(a) Program is designed to assist the small and disadvantaged entrepreneur it also provides important benefits to our Country. The 8(a) Program acts as a source of new supply of firms qualified to produce quality products for the Federal Government at competive prices. Indeed, the Congress in its last session mandated more competition in the Federal Procurement Process rather than less. Competition is only practical when a large pool of qualified vendors exist. The 8(a) Program adds to this pool. In the long-term, the government will benefit by receiving both lower prices and improved quality of goods and services. That is what competition means, building a better mouse trap and building it cheaper. For nearly two centuries the supply of competitors has been constrained and has been chiefly devoid of minority participants. This has cost the government, both by losing the genius and expertise of the minority business community as well as by leading to higher prices and lower quality through the restriction of competition.

Another important benefit is the contribution made by the 8(a) Program in helping to develop a more equal society. The 8(a) Program alone will not accomplish this task nor even the smaller task of ensuring a viable disadvantaged business community. However, as an element in the overall struggle for the more even society, the contributions of the 8(a) Program cannot be dismissed. One need only look at the annual publishing of the list of the 100 largest Black owned companies by the magazine, Black Enterprise, to recognize how important the 8(a) Program is to Black business. A content analysis of the 100 largest firms shows each year a large percentage are participants in the 8(a) Program.

I recognize that the debate over the future of the Small Business Administration has not envisioned eliminating the mission of the Section 8(a) Program. I understand that the Administration proposes that the 8(a) Program be shifted to the Department of Commerce for its adminsitration. I oppose such a shift in principle because I fear that the effectiveness of the shifted program will diminish considerably from its present success. The 8(a) Program has been successful in large part because of the intensive effort given on behalf of the SBA in support of a relatively small number of firms. This has resulted in the development of working relationships between various SBA officials and 8(a) business managers. The SBA officials have gained great insight and expertise into the particular problems of the disadvantaged business community in general and in particular extensive knowledge of individual portfolio firms. To transfer the mission of the SBA to the Department of Commerce will destroy this broad base of expertise. Despite the existence of the Minority Business Development Agency, I do not feel, respectfully, that the expertise that exists within the Department of Commerce matches that which exists within the SBA. The question is really one of the sensitivity of the government officials who will administer the 8(a) mission. Within the SBA many program officials have over fifteen years of experience in this field of endeavor. We should not lose this great asset.

The proposed shift of the 8(a) Program to the Department of Commerce will create a significant burden on 8(a) firms. These firms, already facing a certain graduation date, need to maximize their opportunities prior to such graduation. To accomplish this requires the assistance of program administrators who fully understand and can advocate on their behalf. To take time to acquaint new players with the detailed circumstances of any firm's busienss plan and development objectives entails considerable time, effort, and money. While the new program administrators are coming up to speed the result on the 8(a) firm are edictable. They will suffer lost contract opportunities, increased administrative expense, and, from an opportunity cost stand point, require that their scarce managerial resources be directed at developing new relationships with the new 8(a) administrators rather than pursuing the development missions of their firms.

Perhaps, I am overly sensitive to the issue of where the program will be housed because of my involvement with the Chicago Region and District staffs of the SBA. I would like to state for the record that there can certainly be no finer Region Administrator than Mr. Richard Durkin of Region Five. Mr. Durkin is the type of administrator who best typifies what is right about the present functioning of the Small Business Administration. His sensitivity to the concerns of disadvantaged entrepreneurs combined with his persistence and diligence has resulted in his Region's eminence in 8(a) contracting. Some of the most visible, largest, and highest risk 8(a) projects have been successfully housed in this Region. Mr. Durkin could not be as effective as he has been without the able assistence of Mr. Fred Herlocker, Deputy Administrator, and Mr. James Gordon, Associate Administrator for Minority, Small and Disadvantaged Business. They are both public officials who measure up to the highest standards of public service. They are collectively fair yet tough people to do business with. They are interested in both the success of the program and in the needs of the federal agencies. They balance these competing interests in what is often a thankless and difficult environment. They are realistic with their portfolio companies and in their assessments of the business risks that are involved in procurement opportunities. They are not afraid to say, "no" to a portfolio company when they believe that a particular contract is not in its interest. Similarly they are not afraid to strongly advocate on behalf of one of their portfolio companies when they think that the company is right. We are indeed fortunate in our Region to have such a high caliber of program administrators.

General Railroad is equally fortunate to be housed in the Chicago District Office of the Small Business Administration. Mr. Jack Smith, District Administrator, and Mr. Robert Kyler, Associated Administrator for Minority Small and Disadvantaged Business carry on the tradition established at the Region level. I know that Civil Servants are often maligned and those which serve in the Small Business Administration are not exempt from such disparaging comments.

However, it must be noted that the caliber of service in the Chicago District and Region offices is worthy of high praise and merit. For the 8(a) mission to be accomplished, it requires the kind of administration that we witness here in this Region and District.

In closing, I would like to again reaffirm my support for maintaining both the form and mission of the Small Business Administration. It has been a tremendous asset to the minority business community and the loss of it is sure to cause irrepairable damage to those of us who have invested in its success.

Mr. SAVAGE. Thank you, Mr. Thompson.

The last person to testify on this panel is Yvonne Peak, president of Peak Enterprises of Chicago, IL.

TESTIMONY OF YVONNE PEAK, PRESIDENT, PEAK ENTERPRISES, LTD., CHICAGO, IL

Ms. PEAK. Good afternoon. Congressman Mitchell, Congressmen Hayes and Savage, and distinguished members of your staff, it is a pleasure to have the opportunity to tell you that my company was started in the spare bedroom of my home. And all I had, more or less, was the imagination and vision. I wanted to become a manufacturer of pharmaceuticals.

There was a great and obvious lack of the other tangible resources that were needed. I did a backwards progression into the industry, found out about the 8(a) program in 1979, became certified as a participant in 1981, and since that time, with the assistance of SBA, have successfully negotiated and completed several Federal contracts as a distributor of pharmaceuticals

In 1983, we had acquired the manufacturing equipment, had identified the appropriate commercial property as well as, most importantly, obtained the much needed financing. This financing was only put in place after SBA provided a 90-percent guarantee to the lending institution. Peak Enterprises proceeded to become possibly the only black owned- and operating-pharmaceutical manufacturing firm in the United States. I have constructively utilized and benefited from the programs and the services provided by the SBA.

Our first manufacturing contract was awarded by the Veterans Administration in November 1984. However, our firm was unable to finance this contract within the private sector and, therefore, we requested and did receive advanced payments from SBA. Had these funds not been available, we would have lost this opportunity. It is just one example of SBA's work.

I continued to develop—to continue the development of this company is contingent upon more contract opportunities, both within the Federal Government as well as in the private sector. Contracts would require that we hire more people, that we train them with now marketable skills.

Our company is located in the First Congressional District of Illinois, which has been designated as a labor surplus area. We are utilizing worthwhile Federal programs which are administered by the SBA, thus creating new and permanent jobs. It is a contribution to our community as well as to our Nation's economy.

In these times of unusually high and consistent unemployment within our minority communities, I would ask that Congress consider strengthening rather than decreasing existing funding, staffing, and legislation assisting small business and the SBA. I respectfully request that your committee and the full Congress promote small business, and the requirement that large business provide subcontracting opportunities to small business and to small minority disadvantaged businesses. It continues to elude our firm, for example, how to become a subcontractor as a part of bid proposals submitted by Federal prime contractors in our industry, under Public Law 95-507. We request an interpretation and your guidance on this matter and, surely, SBA is in the best position to provide a pool of these small businesses, competent and viable firms, to participate in large business ventures in the contracts they receive with Federal agencies.

And, lastly, it is to say that the various times that I come to the 8(a) program in this building, because it is the district office, I often see people, men and women, old and young, all kinds of ethnic backgrounds. These are people who have nothing more than an inclination to go into business. And, frankly, city, State or otherwise, everyone, for the most part, that talks about going into business, knows they can come for information, help, and full referral to the Small Business Administration. If you wipe this out, if it is erased, there is very little for these people to do. There is the public library, but the public library does not provide the assistance provided by the staff who sits in this room and sits in this building. And I would ask that you not allow the administration to dismantle this program.

Thank you very much.

[Ms. Peak's prepared statement follows:]

PREPARED STATEMENT OF YVONNE PEAK, PRESIDENT, PEAK ENTERPRISES, LTD., CHICAGO, IL

Good afternoon Congressman Mitchell and the other distinguished members of the House Committee on Small Business. The following is my statement of concern and questions regarding the Administration's request to dismantle the Small Business Administration.

By profession, I am a Registered Pharmacist and my first business venture was a retail pharmacy, which was developed along with a former classmate, and opened in 1975.

Approximately two (2) years later, I founded Peak Enterprises, Ltd. (PEL). Initially it was a solo effort begun in the spare bedroom of my home. It required much planning and research. The idea was to eventually become a manufacturer of pharmaceuticals. I had only the energy, creativity, vision, and desire; but lacked so many of the other very tangible and much needed resources.

I then did a backward progression into this rather closed but moderate to strong growth oriented industry - an industry which is controlled and dominated by large multi-billion dollar multi-national corporations. I first learned of the 8(a) program in late 1979, and became a certified participant of the program in mid-1981. Since that time, with the assistance of SBA, I have successfully negotiated and completed several federal contracts as a distributor of pharmaceutical products. The largest, to date, was in excess of $290,000.

By 1983, we had acquired manufacturing equipment; had identified an appropriate commercial property; as well as most importantly - obtained the much needed financing, but only after SBA provided a 90% guarantee to the lending institution. PEL proceeded to become possibly the only black female owned and operated pharmaceutical manufacturing firm in the U.S. I have constructively utilized and benefited from the programs and services provided by the SBA, i.e.:

- Marketing Plan
- Search and identification of distributing and manufacturing contracts
- Contract Negotiation
- Score Counseling
- Development of marketing materials
- Market analysis and information
- Financial Assistance

Our first manufacturing contract was awarded by the Veterans Administration in November 1984. However, our firm was unable to finance this contract with the private sector. Therefore, we requested and did receive advanced payment from SBA. Had these funds not been available, we would have lost this opportunity.

This is just one example of SBA at work. The continued development of PEL is contingent upon contract opportunities both from the Federal Government and the private sector. Contracts would require that we hire more people, and that we train them with marketable skills. Our company is located within the First Congressional District of Illinois, which has been designated as a labor surplus area. FEL is utilizing worthwhile federal programs which are administered by SBA, thus creating new and hopefully permanent jobs. This is a contribution to our community as well as to our nation's economy. In these times of unusually high and persistent unemployment within our minority communities, I would ask that Congress consider strengthening rather than decreasing existing funding, staffing, and legislation assisting small businesses and the SBA.

I respectfully request that your committee and the full Congress promote small business and the requirement that large business provide sub-contracting opportunities to small business and small minority disadvantaged businesses. It continues to elude our firm, for example, how it can become a subcontractor as a part of bid proposals submitted by Federal Prime Contractors in our industry under PL 95-507. We request an interpretation and your guidance on this matter. SBA is surely in a position to provide a pool of competent and viable firms.

Year after year small business continues to create more new jobs in this country. During my visits to our SBA District Office here in Chicago, I have observed a very diverse group of men and women, young and old, all of them expressing a desire and an interest to pursue business opportunities. This agency is a place where many go for help, information, and referrals. This is encouragement, hope, and belief in the American Dream.

SBA is not without its problems and areas needing improvement; but I would ask that they not be judged for these deficiencies any harsher than other federal agencies. To abandon its intent and purpose in dismantling this agency is not the answer.

I wish to thank this committee for the opportunity to address them and hope my comments will be taken into your consideration. Thank you.

Mr. SAVAGE. Thank you, Ms. Peak.

That completes this panel. We will have questions in just one moment. But I wanted to make one brief comment.

My office deals, of course, with quite a few minority businesses, trying to assist them with certification and securing of contracts. It has been our general experience that, indeed, the SBA personnel in this region are very helpful, cooperative, able, and hard-working. Since certain names have been mentioned, and are in the record now, including the name that I wish to mention, I will mention it again deliberately to make sure it gets into the record twice. Our office has nothing but the highest praise for the District Director of the Chicago SBA Office, Mr. Jack Smith.

Mr. Chairman.

Mr. MITCHELL. Thank you very much.

And I will make my apology now. I have to get a flight back to Baltimore this evening. Last week we were on the road trying to save SBA, and on Monday we will be in Philadelphia, hearing from the people, to support what I consider a much needed and worthwhile program.

I have a couple of comments and a couple of questions.

First of all, Mr. Guthrie, I wanted to augment your point on the partnership between city, State, and Federal Government and the private sector. It is very encouraging to note that in most cities entities have been set up to assist minority businesses. In my city of Baltimore, there is something called BEDCO, the Baltimore Economic Development Council. Although it is not focused entirely on minority businesses, certainly it has a great thrust there. I imagine there is a similar entity in Chicago. In fact, I know that there is; I just don't recall the name.

The point that I wanted to make is that I think this local effort will absolutely disappear if the top effort is gone. I think these local entities came into being only because there is a Federal agency saying, do it, move it, bring them in. If SBA should be dismantled—we are determined that it will not be. That is not saying it as a threat or anything, because I do not threathen anybody. I am too religious to do that—it is a very real possibility that if you eliminate the top, then the bottom falls apart. That is the first comment I wanted to make.

Second, Mr. Thompson, I think you are so right on the problem with dealing with a whole new cast of characters. It is not just SBA or Commerce. Some of you have tried to deal with the Department of Defense. It takes you 2 years just to learn the DAR regulations.

Mr. THOMPSON. Which are now FAR.

Mr. MITCHELL. If they were suddenly changed and a whole new cast of characters came in, then you go back to square one. And it leaves us in the position of always getting close to the golden ring; when you get real close to it, somebody says to reverse the pattern, or change the golden ring to a platinum ring, or something like that.

I think your point is well taken.

I will go on record unequivocably by saying I do not believe that the Department of Commerce has the personnel nor the sensitivity nor the capability to deal with minority businesses now. That is why I have kept insisting in all the hearings that if you move it over there, that is the prelude to ending the entire thing.

We have good sense. You know, people have these hidden agendas like we can't figure them out, but we've been figuring out hidden agendas since 1619, and I know what that move would mean.

Ms. Peak, I wanted to congratulate you.

One of the central theses of this administration, vis-a-vis minority business, is, OK, you have grown; get out from under any kind of Government support; get out and swim with the rest of the guys in the free enterprise system. If you've got a computer operation, well then go on out there and compete with IBM, Apple, and everybody else.

You indicated that you have had difficulty in even getting a subcontract.

Ms. PEAK. Impossible to do.

Mr. MITCHELL. Is there something called the American Hospital Supply Co.?

Ms. PEAK. Yes.

Mr. MITCHELL. That is one of the biggest, is that right?

Ms. PEAK. Yes.

Mr. MITCHELL. If not the biggest. Have they been responsive to you in any way?

Ms. PEAK. No. And I have talked with them.

There is also another effort that Congressman Hayes and I are currently working on. It's a Federal prime contractor that submitted a proposal with a very large, multi-million dollar contract to the Federal Government, wherein it, they said they would do .8 percent business with minority business; .8 percent, as a subcontract.

Mr. MITCHELL. That is almost obscene.

Ms. PEAK. My company right now is in financial straits. And that's only because of a lack of business. And, in fact, we are the only company in the country that is black owned and operated. We have introduced ourselves; we are licensed by the State and Federal agencies.

Mr. MITCHELL. That is what I suspected.

Under Public Law 95-507, I think Jerry Jones can attest to this, we are constantly bringing the agencies in. When we bring them in and put the spotlight on them, that is when they improve. Once they are out of the spotlight, they start slipping back. The problem is that the agencies of Government are simply violating the law when they sign off on contracts. They are violating Public Law 95-507 unless they review the plan laid out in advance before the contract is signed.

I don't know much more that we can do except to continue to monitor and pressure them.

A little earlier on, I introduced the head of the Minority Business Enterprise Legal Defense Fund. We surely will have to sue some of the agencies. I have no problem with that. I love to sue. And we might well have to file suit, as we did in the past against GSA in order to get compliance with the law.

I thank you for your testimony.

There is the desire to end support for higher education for people. There is the desire to end support for housing for people. There is the desire on the part of this administration to get Government out of the business of providing certain basic support systems. I disagree with all of that. But if that is your intent, then leave one viable option; at least leave us the option of developing an entrepreneurial class where maybe we can address those problems through our own entrepreneurship. To do it any other way is to really suggest that you want to put minorities in this country in a permanent subclass category.

I am preaching now, Mr. Chairman. I'm sorry. I will go and get on my plane. I am sure they will have some liquid refreshments. I'm talking about Pepsi or Tab. I don't know what you're talking about.

Mr. SAVAGE. Congressman Hayes.

Mr. HAYES. Several brief questions.

One, Mr. Jones, in your statement, I do not see the amount of the loan that you were first able to obtain. What was the amount of your first loan?

Mr. JONES. If I remember correctly, our first loan was for about $65,000.

Mr. HAYES. And have you gotten additional loans since then?

Mr. JONES. We have had three loans, I believe. We paid off the first loan. We had a second loan for about $350,000, and we had a third loan for about $580,000, whatever the maximum is. All of our loans have been paid off in the past.

Mr. HAYES. Is the last one current?

Mr. JONES. It was paid off. We don't have any loans currently.

Mr. HAYES. Oh, beautiful.

Now, Ms. Peak, I have a lot of sympathy for you. You have two strikes to begin with. You are black and you are a woman. There is no question about it in business. As the chairman said, you're among giants, fighting for survival. A person of less determination, such as me if I had been in your position, would probably would have found a basement window to have leaped out already.

I am glad to see that you came here to give testimony.

I do hope, Mr. Chairman, if there is anything that we can do to force the proper authorities within the pharmaceutical industry to at least give what amounts to a fair chance for the survival of a business, I think we ought to do it, including suing, if necessary, the appropriate agencies.

I just wanted to make that point.

Now, Mr. Rodriguez, in your statement, I think you touched upon something that has been on the front pages of the paper here recently in Chicago, these front-company operations. That is the kind of situation that I think is very troublesome.

Do you have any suggestions as to how we should deal with this situation? I think it is a problem, particularly in the contracting business, when it comes to these set-aside programs. In order to do the contract, we find cooperative minorities who are willing to play the front role, at the same time to benefit themselves. But it is certainly undercutting the program.

Mr. MITCHELL. Would you yield to me, just before you respond?

I got a little leery of front-company stuff, real or alleged. I have introduced legislation—it is in the House now—to amend the Small Business Act to provide greater penalties for front companies; increasing the prison term from 2 years to 5 years, and from a $5,000 fine, I think, to a $50,000 fine.

If that is implemented, that will help. Perhaps Mr. Rodriguez will have some other suggestions. But my argument is that we can put the law in place as my bill is going to pass. It may be referred to the Judiciary Committee. They are going to pass it. And I am sure that our Small Business Committee will pass it. Then you have the problem of making the Justice Department enforce the law. That has been one of the weak points. There really has not been an aggressive action taken against front companies.

Thank you. I just wanted to get a plug in for my bill.

Mr. RODRIGUEZ. May I clarify that, please?

My statement was not on front companies, but I am glad you brought that out. My statement was that when we, as minorities, acquire an 8(a) contract, there are certain disciplines that we must provide to complete the contract, that there is no known minority in that discipline. There is no known minority that I know of, and I travel across the country, that's in the insulation business. There is no known minority contractor, that I know of, that is in the temperature control business. There is no minority that I know of that is in a couple of other disciplines that we need to complete the contract that is given to us by the 8(a) program.

It is not that these persons are fronts, but we have to go to the nonminority section to get bidders if we want to complete our contract and, by doing so, we are giving back work to members of the Association of General Contractors who are the biggest critics of the 8(a) program. That is what I meant by that. But since you brought up the front companies, yes; I do have a lot of ideas.

To this date, I have not seen or heard of a minority front or a majority, who has put him in the limelight, go to jail or be fined; simple as that. And according to what I have read, there are laws; everybody signs papers stating that there—when they sign these papers, that they perjure themselves if they are not telling the truth. We have at this very instant, at O'Hare Airport, some fronts, what I consider fronts. I don't know what is being done about it. Our association at the present time is trying to work out strategy, and by the time we, as contractors, have had to deal with our association, take care of business and take care of what we consider strong issues, the contracts would be gone.

We have sat down and met with the proper persons, and they're afraid of getting sued.

What is happening in our industry with regard to the 25 or 30 percent minority implementation is that it opens up the door for these fronts. If you send a majority contractor to jail or fine him and bar him from ever getting in that Federal program, like the Department of Defense or wherever the contract comes from, I can guarantee you that the fronts would disappear.

I know that I have to struggle with the $5,000 jobs, $2,000 jobs, $20,000, little by little. I've been in business for 8 years. My gross is only $3 million, and, at the present time, I employ 35 persons. There are persons at O'Hare who just got incorporated and they've got $10 million, $10 million contracts. That's ludicrous. Something has to be done.

I hope you, with your power, can do something about this, and stop it now before they award more contracts to these fronts. We're hurting viable persons like myself, who take the time out to come to hearings like this, who take the time out to work with community organizations, who take the time out to help the community. Now what is happening is that you are putting up these fronts who are doing nothing but collecting the 2 or 3 percent that is flowing through their firm.

Something has to be done about it and something has to be done now. It is strong; it's a strong implementation. Either the law has to be enforced; you have to sue; we have to sue, or we are going to be out of business. You are hurting; we are hurting.

Mr. SAVAGE. Let me repeat that the chairman's legislative proposal in this Congress is not limited to simply increasing the penalties, but reflects our awareness of the inadequate enforcement of the legislation presently on the books. Congressman Hayes and myself, if I am not mistaken, are both cosponsors of that legislation, and we feel much as you do.

Let me thank this panel. You were very informative. And let me say that we were impressed. You were quite prepared and obviously experienced in this matter. You expressed yourselves well, making the record on behalf of the 8(a) program and other minority programs of SBA that are presently threatened.

This record, as it is compiled as the committee goes across the country, should be very helpful in that regard.

Let me thank you very much, and ask for the next panel.

The next panel will consist of Martin L. Shape, Ken Ford, Charles Green, and Jim Wood, devoted to the issue of Surety Bond Guarantees. Also, at the special request of Congressman Hayes, is there a Mr. Taylor Cotton on behalf of the Chicago Urban League present? Won't you join us, please?

Will the panelists please be seated. And could we begin with Martin Shape, president of Midwest Indemnity Corp. of Lincolnwood, IL.

Let me just say, as I have to previous panels, kindly bring that small mike as close to you as you can.

Mr. Shape.

And let me say again, because of the lateness of the hour, I would appreciate it very much, wherever possible, that you summarize your testimony, particularly with regard to testimony of more than three pages. We have the written copies which will go into the record. Of course, your summation will not limit the range of the questions.

Mr. Shape.

TESTIMONY OF MARTIN L. SHAPE, PRESIDENT, MIDWEST INDEMNITY CORP.

Mr. SHAPE. Good afternoon, Mr. Chairman. My name is Martin L. Shape. I am the president of Midwest Indemnity Corp. and a past president of the American Surety Association. I appreciate this opportunity to appear before you in support of the Small Business Administration and the SBA's Surety Bond Guarantee Program.

Midwest Indemnity Corp. is a managing general agent and, as such, has represented many surety companies involved in the SBA Surety Bond Guarantee Program. Our office has been responsible for bonding approximately 5,000 contractors in this region, who, perhaps, support some 40,000 employees. As part of the private sector, we have made a specialty in bonding emerging and minority contractors.

The American Surety Association is an association which unites surety companies, their agents, and that part of the legal community which supports the surety firms and agents. The association and our agency is concerned particularly with the proposal of the Office of Management and Budget to eliminate the SBA and those programs included under the collective heading of the loan guarantee programs.

We believe that the administration is making a grave error in eliminating the SBA and, more particularly, in proposing the elimination of the SBG Program. As taxpayers, we are sensitive to the burdening cost of Government and the potential for increased taxes. However, we feel just as strongly that the SBG program is absolutely necessary to the survival of thousands of small contractors across the United States. Further, instead of being a burden to the taxpayer, the SBG Program saves the Government millions of dollars each year.

The argument for eliminating many of the SBA programs by the Office of Management and Budget is that the small businessman involved would be better served by the private sector. In the case of the SBG Program, it is run by the private sector and supervised by the SBA. Both the private sector and the Government share the risk in order to provide small and minority contractors with bonds which are not available to them in the standard surety market. Bonding, of course, is required by the Miller Act for all contractors working on Government contracts. Thus, the elimination of the only bonding source available to contractors without an impressive track record will have an immediate effect of eliminating thousands of contracting firms and jobs from the construction market.

It can be conclusively proved that the program is a positive financial contribution to the Government. At the national level, the estimate of the public savings from the program, from its inception in 1971 through 1984, is estimated to be approximately $917,739,400. An analysis was made in 1977 of all bonded, nonnegotiated contracts guaranteed by the SBA to project the difference between the contract award prices and the bids of the second lowest bidders on publicly financed contracts. The bid differential or bid spread represents cost savings to the Government as a direct result of the operation of the SBG Program.

To put this in perspective, Mr. Chairman, the entire cost of the SBG Program to the Federal Government, prior to including the bid differential, was estimated to be about $8 million per year. This amount is less than half the cost of one fighter aircraft, and the program provides thousands of jobs and opportunity to hundreds of small and minority entrepreneurs to create and run their own small businesses.

A 1977 study showed that 30.7 percent of all SBG contracts are publicly financed and awarded through the formally advertised process. For these, the average bid spread was 9.25 percent, meaning that the second lowest bidder's price was an average of 9.25 percent higher than the winning low bid. In another study of 1,000 contracts completed in 1985, the bid spread had risen to 11.7 percent. The obvious conclusion is that when the SBG Program is viewed as part of the total Government effort, the program has not only been self-sustaining, but has provided substantial savings to Government at all levels.

In addition, there is an obvious benefit to both the Government and the public at large, in supporting thousands of jobs in the contracts for which bond guarantees were provided. Construction firms provide jobs, in many cases, for individuals who are not highly skilled and for whom it is difficult to find employment.

For the first 6 months of fiscal year 1985, the Surety Bond Division of the Chicago regional office approved performance and payment bonds totalling $56,914,195. During the first 6 months of fiscal year 1984, performance and payment bonds included a total of $46,489,173.

For all of fiscal year 1984, approved performance and payment bonds totaled $109 million. For all of fiscal year 1985, SBA is projecting total surety obligations of $130 to $140 million. Since, historically, construction activity is higher in a six State area, comprised of region 5 during the spring and summer months, it should be noted that several surety companies which had been underwriting emerging and small contractors without the SBA bond guarantee are no longer underwriting these bonds, which will create an even greater void in the marketplace. It is my understanding that some of these sureties were charging contractors substantially greater premiums than what is permitted under the SBA SBG Program. Consequently, while these accounts were obtaining bonding for a time, the cost of them, I feel, is excessive. The contractors belong in the SBA SBG Program since the program is, in effect, to assist those individuals at fair premium rates.

Significantly, during the first 6 months of fiscal year 1985, SBA added 337 new contract accounts in region 5 to its portfolio. I believe that few of these contractors could have received bonding assistance through standard channels. Recently, standard companies have been increasing their qualifying criteria, making it even more difficult for the small and emerging construction firm to obtain bid, performance and payment bonds on a direct basis.

Since the inception of the SBG Program in 1971, 166,132 surety bonds have been guaranteed, permitting the award of $12.9 billion in contracts.

After deducting program costs, including losses, SBA can identify approximately $504 million in direct savings, which is the difference between the bid price and the small business participant in the SBG Program and the next lowest bidder. And it has helped thousands of small construction contractors to enter the Federal, State and local markets. Small business needs an advocate at the Federal level. The SBA fulfills that role. Although there may be problems with the administration of some of the programs, on balance, the administration of the SBG Program has been excellent in

Washington and throughout the country. The individuals working in the program understand the private sector and have worked in close conjunction with the surety firms and agents to provide an efficient and effective bonding source for companies who, under ordinary circumstances, cannot find the bonding in the standard surety market. Compared to many of the Government programs, the SBG Program is being run effectively by very few Government employees across the country. It is my understanding that the total number of employees is less than 50, and that includes several temporary and part-time employees.

Mr. Stockman, in the Senate's Small Business Committee hearings on March 7, 1985, argued that the majority of small business neither need nor use the SBA. Even if true, it misses a vital point insofar as the SBG Program is concerned. This program was not developed to be used by all businesses, but only those small and minority firms which, because of the Miller Act and the historical unwillingness of the standard market to provide bonding, could otherwise not participate in our booming economic system.

We support your efforts to maintain the SBA in its role as an advocate for thousands of small businesses in the United States. We urge that you consider our contention that the SBG Program stand on its own and that the SBA is an effective and efficient program for providing small and minority contractors.

In conclusion, Mr. Chairman, members of the panel, let me again express my appreciation for this opportunity to appear before you. I am very concerned about the future of the SBA and, particularly, the SBG Program. And I encourage the committee to continue its support of both the organization and the program.

Mr. SAVAGE. Thank you, Mr. Shape.

Next, we will have Ken Ford, president of THS Construction of Chicago, IL.

TESTIMONY OF KEN FORD, PRESIDENT, THS CONSTRUCTION, CHICAGO, IL

Mr. FORD. First of all, I would like to say thank you for having me here this afternoon. My name is Ken Ford, and I am president of THS Construction.

I felt that it was very important for me to express my concern over the proposed elimination of a program that has provided that helping hand for so many small and minority businessmen across the country.

THS Construction was given that helping hand. To illustrate how, I would like to talk to you briefly about THS, how it started, and where we are now.

I started THS Construction in 1981, working out of my garage. My idea was to provide a low cost, high quality service to homeowners in the area of window replacements for energy savings, and alarm systems for home security. I was the only employee for over 6 months. That period of time was one of few successes and many disappointments. I realized that I needed the help of someone experienced in my business and, after making inquiries, I was directed to the SBA SCORE Program. I was assigned a counselor who aided me in formulating a business plan, setting up standardized accounting procedures and market strategies. From that point, my business began to grow. I expanded my services to include general contracting.

In making contact with city and Federal Government agencies to learn more about their purchasing procedures, I learned that, without performance bonding, it is nearly impossible to do construction contracting for the Government. I made another visit to my counselor, who directed me to the SBA Office of Management Assistance, which was instrumental to directing me to a participating surety agent. After providing them with the necessary financial information, I was able to secure my first performance bond with an SBA guarantee, and my first Government contract.

Since that first bond, THS Construction now has five full-time employees, with plans to double that figure by year's end.

The SBA programs have become an integral part of my business planning, and to eliminate the agency would be tantamount to sentencing businesses such as mine to an existence of mediocrity. It seems illogical to me for the Government on one hand to have small business and minority set-aside programs and, on the other, to eliminate the only agency that is designed to help those same small and minority businesses, to qualify for those set-aside programs.

We need the Small Business Administration not only for small businessmen like myself, but also for those people who have yet to accept the challenge of trying to create a business from an idea, with little money, but big dreams.

Thank you.

Mr. SAVAGE. Thank you very much, Mr. Ford.

Charles Green, vice president, and James Mason, of C&J Sheet Metal & Roofing Co. of Chicago.

TESTIMONY OF JAMES MASON, C&J SHEET METAL & ROOFING CO., INC., ACCOMPANIED BY CHARLES GREEN, VICE PRESIDENT, CHICAGO, IL

Mr. MASON. I would like to digress away from our short statement, if I might, and bring up another area, because these gentlemen have eloquently mentioned the areas that have been so important to us. So let me bring up another area.

We, as a small roofing company, may be the only one here today who is a witness. I would like to bring out a point that after being successful enough to find our bootstraps, and now being in a position with the SBA support to get bonding, we are now having difficulty being paid. In some of our cases, after working desperately, and, as I say, being fortunate enough to win some of the bids, we are 9 months in arrears on some of the contracts, $75,000 at this point in arrears in payouts. And only within the last week or so, one of our fellow roofing companies has had to go under, again with the same problems. I am not fully aware of it, but I thought I would be remiss if I did not mention that to this committee at this time.

If the bonding were taken away from us, our company could possibly fall within the same area. You will notice on our statement that we have grown in the past few years, although we are now hiring only 24 employees, but that is quite a few when you stop and think that it was a company that started with only two members. But we are at the point now where, although they have made the commitments, it is almost as if it is a concerted effort that, if we are able to get the bids, we are still not able to get our money.

The rest of it, I am going to leave up to our statement and I will not spend more time to go through it.

[Mr. Mason's and Mr. Green's prepared statement follows:]

PREPARED STATEMENT OF CHARLES A. GREEN, VICE PRESIDENT, AND JAMES J. MASON, C&J SHEET METAL & ROOFING CO., INC., CHICAGO, IL

C&J SHEET METAL AND ROOFING CONTRACTORS COMPANY IS THE PRODUCT OF THE AMBITIONS OF TWO BROTHERS. AFTER 15 YEARS OF WORKING FOR OTHERS. THE BROTHERS POOLED THEIR ASSETS AND PURCHASED NECESSARY ROOFING REPAIR EQUIPMENT ALONG WITH LIMITED WAREHOUSE STORAGE AND OFFICE SPACE ON WEST 103rd STREET-OCCUPYING ABOUT 9,000 SQUARE FEET AND WITHIN 3 YEARS WERE ABLE TO EMPLOY 6 ADDITIONAL PEOPLE.

WITH QUALITY WORKMANSHIP AND PRIDE BY 1980 WE HAD OUTGROWN THE ORIGINAL LOCATION AND NEEDED MORE SPACE FOR EXPANSION FOR ADDITIONAL TRUCKS, TAR TANKS, AND OTHER HEAVY DUTY EQUIPMENT ON HAND, WE RELOCATED TO OUR PRESENT SITE ON WEST 115th STREET, NOW PRACTICALLY DOUBLING THE PREVIOUS LOCATION WITH COVERED WAREHOUSE, OFFICE, AND YARD SPACE. AT THIS TIME WE WERE ENCOURAGED TO SEEK COMPETIVE BIDDING, AND WERE INTRODUCTED TO STATE OF THE ART SINGLE PLY RUBBER ROOFING-IT WAS NECESSARY FOR US TO GO TO PENNSYLVANIA FOR CERTIFICATION AND MANUFACTURES APPROVAL TO MEET JUST THE BASIC REQUIREMENT TO COMPETE ON THE MAJOR CONTRACTS. ALL OF THESE PRIMARY MAJOR CONTRACTS-INCLUDING CITY, STATE AND FEDERAL REQUIRE BONDING.

KINDLY REMEMBER-THAT IN THE PAST, PRIOR TO 1978 WE WERE NOT ABLE TO SECURE BONDING FROM ANY SOURCE.

ONLY TODAY WITH THE ASSISTANCE OF THE SBA BONDING PROGRAM ARE WE ABLE TO FULLY EMPLOY 24 OR MORE TAX PAYING EMPLOYEES- AND ONCE AGAIN WE ARE ANTICIPATING THE ENLARGEMENT OF OUR PRESENT FACILITIES.

HOWEVER, WITH THE ELIMINATION OF THE SURETY BOND GUARANTEE PROGRAM IT COULD REVERSE OUR PROGRESS-CAUSE LAYOFF OF NUMEROUS TAX PAYING EMPLOYEES, THERE-BY PLACING THEM, AND OURSELVES IN FINANCIAL EMBARRASEMENT.

IN CLOSING LET ME EMPHASIZE THE NEED FOR EVEN A STRONGER SMALL BUSINESS ADMINISTRATION PROGRAM, FOR WITHOUT THEIR SUPPORT, WE AS A MINORITY CONTRACTOR BELIEVE C&J COMPANY COULD NOT CONTINUE MAKING THIS WORTH WHILE AND NECESSARY CONTRIBUTION TO THE COMMUNITY.

Mr. SAVAGE. Thank you, Mr. Mason.

Mr. Taylor Cotton, we are honored to have you on behalf of the Chicago Urban League.

Let me ask you, Mr. Cotton, in light of the fact that your statement is nine pages long, it is quite late, and we want to have time to question this entire panel, is it possible that you could summarize your statement so that we could get into questions before time runs out? We still have one other person here to speak.

Thank you so much.

TESTIMONY OF TAYLOR COTTON, JR., CONSULTANT, URBAN LEAGUE DEVELOPMENT CORP., REPRESENTING JAMES COMPTON, PRESIDENT, CHICAGO URBAN LEAGUE

Mr. COTTON. Chairman Savage and other members of the Small Business Committee, I am Taylor Cotton, Jr., a consultant with the Minority Business and Affirmative Action Program in the Urban League Development Corp. On behalf of James Compton, the president of the Urban League, I am happy to have the opportunity to enter his testimony in the record. I do not feel comfortable trying to summarize my boss' testimony; however, I would like to make just two observations.

I would like to say that the Urban League is unequivocally opposed to any attempts or steps or measures to weaken or eliminate the Small Business Administration. The other issue, I think, is very important. It has been said correctly that one way of getting at eliminating fronts and shams from manipulating the minority business enterprise program is stronger legislation, more adequate resources to monitor the program, and to enforce the program. The Urban League supports that position. However, I think we ought to be cognizant and aware of the motive behind the Chicago Tribune and all other white media, at exposing the front companies in Chicago. I think their motives were more designed to eliminating the minority business enterprise program than they were concerned about the participation of fronts and shams. I think we have to look especially at the construction industry, where the irony of the attempt to weaken the SBA program is not that up-start contractors are participating in fronts. The irony is that if this program is eliminated, our established black contractors and other minority contractors will also have to participate in fronts or go out of business. They also will have to participate as brokers, or go out of business. If they cannot finance the job, if they cannot bond the job, they cannot do the job. It is easier to solve it than to walk away from it. Thank you very much.

[Mr. Compton's prepared statement follows:]

PREPARED STATEMENT OF JAMES COMPTON, PRESIDENT, CHICAGO URBAN LEAGUE

IT IS MY HONOR AND GREAT PRIVILEGE TO BE PROVIDED THE OPPORTUNITY TO COME BEFORE THE SMALL BUSINESS COMMITTEE CHAIRED BY THE HONORABLE PARREN MITCHELL.

BEFORE BEGINNING FORMAL TESTIMONY I WOULD LIKE TO BRIEFLY PUT THE CHICAGO URBAN LEAGUE IN PERSPECTIVE SO AS TO GIVE CLEARER FOCUS TO OUR CONCERNS ABOUT THE PROPOSAL TO ELIMINATE THE SMALL BUSINESS ADMINISTRATION (SBA).

THE CHICAGO URBAN LEAGUE WAS FOUNDED OVER 69 YEARS AGO AND IS THE LARGEST OF 113 AFFILIATES OF THE NATIONAL URBAN LEAGUE. SINCE OUR BIRTH WE HAVE FORWARDED THE IDEAL OF AN OPEN, INTEGRATED AND PLURALISTIC SOCIETY. THROUGH A VARIETY OF SOCIAL SERVICE, JOB-PLACEMENT, VOTER REGISTRATION, LEADERSHIP DEVELOPMENT, YOUTH COUNSELING, AND COMPUTER TRAINING PROGRAMS WE HAVE ATTEMPTED TO ADDRESS WITH PRACTICAL MEASURES SOME OF THE MOST PRESSING ISSUES CONFRONTING MINORITIES AND THE POOR IN THE CITY OF CHICAGO. WE HAVE UTILIZED THE AVENUE OF RESEARCH TO UNEARTH THE ROOT CAUSES OF PROBLEMS AFFLICTING OUR COMMUNITY. WITH A CAREFULLY PLANNED AND EXECUTED ADVOCACY AGENDA WE CONTINUE TO RAISE OUR VOICE IN AN ATTEMPT TO PRESSURE THOSE, IN THE GOVERNMENTAL AND PRIVATE SECTORS, CHARGED WITH DECISION-MAKING RESPONSIBILITY, INTO THE REALIZATION THAT IT IS NOT UN-AMERICAN OR UN-PATRIOTIC TO UPHOLD THE PRINCIPLE OF EQUAL OPPORTUNITY FOR ALL PEOPLE REGARDLESS OF AGE, COLOR OF SKIN, SEX, OR NATIONAL ORIGIN.

IN 1977, OUR WORK WITH BLACK BUSINESSES, LED TO THE FOUNDING OF BLACK CONTRACTORS UNITED WHICH HAS BECOME A PRICELESS RESOURCE AND RESOLUTE ALLY IN THE CAUSE OF ECONOMIC OPPORTUNITIES FOR MINORITY ENTREPRENEURS. IN 1984, WE CREATED THE CHICAGO URBAN LEAGUE DEVELOPMENT CORPORATION IN EFFORTS TO EXTEND OUR TECHNICAL AND OTHER OUTREACH TO THE MINORITY BUSINESS COMMUNITY.

IN SHORT, THE CHICAGO URBAN LEAGUE HAS COMMITTED ALL OF THE RESOURCES AT ITS DISPOSAL TO BRING RELIEF TO THOSE VICTIMIZED BY INSTITUTIONAL RACISM.

WE HAVE SCORED SOME VICTORIES, BUT TO A SIZEABLE SEGMENT OF OUR CITY, TRUE EQUALITY REMAINS AN ELUSIVE DREAM. THE CATALOGUE OF BASIC DENIALS IS LONG, BUT PERMIT ME TO SHARE WITH YOU SOME OF THE MOST REVEALING INDICATIORS OF THE BLACK CONDITION IN THIS CITY.

THERE IS A 27 PERCENT BLACK UNEMPLOYMENT RATE, REACHING UP TO 60 PERCENT FOR BLACK YOUTH. BLACK MEDIAN FAMILY INCOME IS 50 PERCENT OF THE WHITE FAMILY MEDIAN. THE BLACK POVERTY RATE IS ALMOST 6 TIMES AS HIGH AS THE POVERTY RATE FOR WHITES. THE INCIDENCE OF INFANT MORTALITY IN CHICAGO PLACES IT THIRD AMONG MAJOR AMERICAN CITIES.

AND YET, THE REAGAN ADMINISTRATION CONTINUES TO HACK AWAY AT SOCIAL SPENDING WITH RUTHLESS INTENSITY. INDEED, THE ADMINISTRATION'S PROPOSED BUDGET READS LIKE A SCRIPT FOR "DIRTY HARRY" RATHER THAN A SERIOUS PRESCRIPTION FOR CURING THE ILLS OF OUR ECONOMY AND REHABILITATING THE HOPES, DREAMS AND ASPRIRATIONS OF BLACK AMERICANS.

THE ADMINISTRATION'S DOMESTIC POLICY MARKS AN UNPRECEDENTED RETREAT FROM MORAL AND PROGRAMMATIC LEADERSHIP ON MATTERS THAT THREATEN OUR NATION'S ECONOMIC FABRIC AS WELL AS ITS BODY POLITIC.

SHARP CUTS IN SPENDING ON SOCIAL SERVICES, MASSIVE SHIFTS IN RESOURCES TOWARD THE MILITARY, THE THREATENED DEMISE OF THE SBA, AND THE APPARENT DISTASTE OF THIS ADMINISTRATION FOR CONCRETE MEASURES TO REMEDY THE CONTINUING EFFECTS OF HISTORIC DISCRIMINATION, ARE INDEED OMINOUS SIGNALS. EACH MEASURE AND PROPOSAL SEEMS TO BE THE PRONG OF A PINCER MOVEMENT DESIGNED TO STRANGLE AND ENTRAP MILLIONS OF AMERICANS, A DISPROPORTIONATE NUMBER OF WHOM ARE BLACK.

I COMMEND YOU, THEN, FOR INVITING PUBLIC DISCUSSION ON ISSUES WHICH ARE KEY TO THE ECONOMIC WELL-BEING OF OUR COMMUNITIES. OUR NATION WAS BUILT AND SUSTAINED IN PART BY THE ENERGIES AND IMAGINATION, THE DARING AND DETERMINATION OF COUNTLESS ENTREPRENEURS, NO LESS IMPORTANT THAN THE HENRY FORDS, THE RANDOLPH HURSTS, AND THE JOHN D. ROCKEFELLERS WERE THE COMMUNITY BANKERS, THE BARBERS, THE "MOM AND POP" GROCERY STORES THAT PROVIDED AN ECONOMIC AND SOCIAL CENTER FOR OUR NEIGHBORHOODS.

THE VITAL ROLE OF THE SMALL BUSINESS SECTOR IN OUR PAST, PRESENT AND FUTURE IS UNIVERSALLY ACKNOWLEDGED. LET ME JUST ADD THAT ITS ROLE IS PARTICULARLY CRITICAL IN THE MINORITY COMMUNITY. THE JOHN JONESES, THE JESSE BINGAS, THE ROBERT ABBOTTS WHO BUILT AND SUSTAINED CHICAGO'S "BLACK METROPOLIS", WERE SMALL BUSINESSES BY MOST STANDARDS, BUT GIANTS IN OUR COMMUNITY. THEY PROVIDED JOBS, GOODS, SERVICES, A MEASURE OF ECONOMIC STABILITY AND A MAJOR SOURCE OF PRIDE AND INSPIRATION TO CHICAGO'S MINORITY COMMUNITY.

MINORITY BUSINESS ARE STILL SMALL BUSINESSES. THE LARGEST BLACK BUSINESSES IN THE COUNTRY, SEVERAL OF WHICH ARE CHICAGO FIRMS, ARE A LONG WAY FROM MAKING THE FORTUNE 500 LIST. IN 1977, ACCORDING TO THE U. S. CENSUS OF MINORITY BUSINESSES, OVER 80 PERCENT OF ALL BLACK FIRMS HAD NO PAID EMPLOYEES. THOSE WITH EMPLOYEES HAD AN AVERAGE OF 4 PER ESTABLISHMENT. THE CUMULATIVE IMPACT, HOWEVER, WAS SIGNIFICANT. IN 1977, BLACK BUSINESSES GENERATED $700,000 IN REVENUES AND PROVIDED OVER 12,000 JOBS TO THE CHICAGO ECONOMY.

SMALL COMMUNITY-BASED BUSINESSES, BLACK AND WHITE ALIKE, ARE INCREASINGLY BECOMING AN ENDANGERED SPECIES IN THIS ERA OF MERGERS, ACQUISITIONS, CONGLOMERATES, AND MULTINATIONALS.

BLACK BUSINESSES IN PARTICULAR HAVE FACED HARD TIMES IN THE LAST DECADE. BETWEEN 1972 AND 1977, WHEN THE RHETORIC OF "BLACK CAPITALISM" WAS POPULAR, THE NUMBER OF BLACK BUSINESSES WITH EMPLOYEES INCREASED BY 47%, AS DID GROSS RECEIPTS. INFLATION RATES, HOWEVER, INCREASED BY 48%, COMPLETELY NEGATING THE GAIN.

THE GOVERNMENT HAS YET TO RELEASE THE 1982 CENSUS OF MINORITY BUSINESSES, SO WE HAVE ONLY GUESSES ABOUT HOW WELL THE MINORITY BUSINESS COMMUNITY WEATHERED THE RECESSION. WE HAVE HEARD GRIM REPORTS, BUT MINORITY ENTREPRENEURS ARE A DETERMINED GROUP. THEY HAVE TO BE.

THE MINORITY BUSINESS COMMUNITY MUST REMAIN VIABLE AND STRONG, IN ORDER TO EXPAND AND CONTRIBUTE TO THE ECONOMIC BASE OF THE CITY. THEIR NEEDS ARE SIMILAR AND IN MOST CASES IDENTICAL TO THOSE OF SMALL BUSINESSES.

LIKE MOST SMALL FIRMS, MINORITY BUSINESSES ARE UNDERCAPITALIZED. THOSE IN THE SERVICE INDUSTRIES ARE PARTICULARLY HANDICAPPED, BECAUSE THEY DO NOT HAVE, AND IN MANY INSTANCES DO NOT NEED, THE CAPITAL GOODS--LARGE BUILDINGS AND HEAVY EQUIPMENT--THAT BANKS SO OFTEN REQUIRE AS COLLATERAL. UNLIKE OTHER SMALL FIRMS, MINORITY BUSINESSES MUST ALSO CONFRONT THE UNFOUNDED, BUT PREVALENT NOTION IN THE FINANCIAL COMMUNITY, THAT THEY ARE AT GREATER RISK OF DEFAULTING ON LOANS AND BONDS.

BLACK BUSINESSES, LIME SMALL BUSINESSES, ALSO NEED ASSISTANCE IN IMPROVING THEIR "HUMAN CAPITAL". THEY NEED MANAGERS WELL VERSED IN THE LATEST BUSINESS SKILLS AND TECHNOLOGIES. THEY NEED A WORKFORCE THAT CAN READ, WRITE, AND PERFORM ON THE JOB. THE DEFIENCIES OF OUR PUBLIC EDUCATION SYSTEM TO ENHANCE "HUMAN CAPITAL" ARE COMMON KNOWLEDGE AND ARE PARTICULARLY CRITICAL IN OUR MINORITY COMMUNITIES.

MINORITY BUSINESSES NEED BROADER MARKETS. NOT ONLY MUST THEY COMPETE WITH THE CONGLOMERATES, WITH THEIR "ECONOMIES OF SCALE", BUT WITH MULTINATIONALS AND THEIR CHEAP THIRD-WORLD LABOR. SMALL MINORITY BUSINESSES MUST ALSO COMPETE WITH SMALL WHITE BUSINESSES. THE CONTINUING REALITY IS THAT BLACK AND HISPANIC FIRMS ARE TOO OFTEN CONFINED TO BLACK AND HISPANIC MARKETS. THIS IS NOT SO BY VIRTUE OF THE QUALITY OF THEIR PRODUCT OR THE TALENTS OF THEIR STAFF, BUT BY THE "TRADITION" AND "PREFERENCES" SHAPED BY BLATANT RACISM WHICH IS ONCE MORE ON THE RISE IN PRESENT-DAY AMERICA.

IN LARGE PART THE ASSISTANCE TO SMALL BUSINESSES MUST COME FROM THE FEDERAL, STATE AND LOCAL GOVERNMENTS. CERTAINLY THE CHICAGO URBAN LEAGUE HAS FOUND ENLIGHTENED AND SUPPORTIVE PARTNERS IN THE PRIVATE SECTOR--THOSE WHO HAVE PLEDGED TECHNICAL ASSISTANCE, JOBS AND BUSINESS CONTRACTS TO THE MINORITY COMMUNITY. BUT THERE IS A NATURAL RELUCTANCE ON THE PART OF BIG BUSINESS TO DEVELOP "THE COMPETITION." WHILE IT IS IN THE LONG RUN ADVANTAGEOUS TO BIG BUSINESS TO HAVE AN ECONOMICALLY VITAL COMMUNITY OF WORKERS AND CONSUMERS, THE SHORT TERM OUTLOOK TENDS TO SEE IN SMALL BUSINESS DEVELOPMENT ONLY A THREAT TO THE COMPANY'S SALES PROJECTIONS AND

IMMEDIATE PROFIT MARGINS.

ON THE OTHER HAND, THE GOVERNMENT'S PURPOSE IS TO TAKE A LONGER-RANGE VIEW AND TO ENSURE THE WELFARE OF THE COMMUNITY IT REPRESENTS. THAT IS WHY GOVERNMENT HAS TRADITIONALLY ASSUMED RESPONSIBILITIES FOR BALANCING THE CORPORATE INTERESTS WITH THOSE OF THE COMMUNITY. SUCH COMMUNITY INTEREST WAS THE JUSTIFICATION FOR SOME WELL-PUBLICIZED ASSISTANCE TO MAJOR U.S. CORPORATIONS IN THE RECENT PAST. SUCH COMMUNITY INTEREST IS ALSO THE JUSTIFICATION FOR EXPANDING RATHER THAN ELIMINATING THE PRIMARY SOUCE OF FEDERAL ASSISTANCE TO THE SMALL BUSINESS SECTOR, WHICH IS THE SBA.

SOME OF THE REASONS BEING ADVANCED FOR DISMANTLING SUCCESSFUL PROGRAMS ARE, QUITE SIMPLY, ILLOGICAL.IN MANY INSTANCES THEY ARE CONTRADICTORY. ONE VIEW IS THAT MANY FEDERAL PROGRAMS ARE NO LONGER NECESSARY BECAUSE LIFE IS BETTER FOR AMERICANS IN 1985 THAN EVER BEFORE IN OUR HISTORY, AND BETTER THAN IN ANY OTHER SOCIETY IN THE WORLD. IN OTHER WORDS, "THE HOUR OF CRISIS HAS PASSED."

I DISAGREE. DISINVESTMENT IN HUMAN RESOURCES AND THE ADOPTION OF A PASSIVE DOMESTIC ROLE BY THE FEDERAL GOVERNMENT HAVE PRECIPITATED AN INTENSE CRISIS. I WOULD HATE TO HAVE TO EXPLAIN TO THE OWNER OF A FAILING SMALL BUSINESS THAT THIS IS THE BEST OF ALL POSSIBLE WORLDS, THAT THE GNP FIGURES PUBLISHED BY THE FEDERAL GOVERNMENT AND RECORD TRADING ON WALL STREET MEAN THAT HE OR SHE IS LIVING IN A GOLDEN ERA.

ANOTHER JUSTIFICATION FOR ENDING VITAL PROGRAMS IS ARRIVED AT BY A METHOD OF REASONING THAT I AM EQUALLY UNABLE TO COMPREHEND. IT IS SAID THAT SINCE SOME OF THESE PROGRAMS HAVE PROVED THEIR WORTH, THAT THE FEDERAL GOVERNMENT SHOULD DISBAND THEM. IN OTHER WORDS, SINCE THEY WERE SO GOOD, WE SHOULD TERMINATE THEM.

ANOTHER ARGUMENT PUT FORTH IS THAT SOME PROGRAMS HAVE NOT WORKED AND, THEREFORE, SHOULD BE ABANDONED.

IT IS NOT ONLY INACCURATE, BUT UNFAIR AS WELL, TO SUGGEST THAT THE SBA HAS FAILED. THERE IS EVERY INDICATION THAT THIS AGENCY BROUGHT A NEW SENSE OF SPIRIT, TECHNICAL AND FINANCIAL RESOURCES AND CONTRIBUTED SIGNIFICANTLY TO THE CREATION OF EMPLOYMENT OPPORTUNITIES, SOME MEASURE OF URBAN STABILITY AND INDIVIDUAL ACCOMPLISHMENT.

CLEARLY THE SBA HAS ADMINISTERED SOME PROGRAMS THAT WERE MORE EFFECTIVE THAN OTHERS. INEFFECTIVE PROGRAMS SHOULD BE REEVALUATED AND REVAMPED OR REPLACED WITH MORE EFFECTIVE PROGRAMS. PROGRAMS THAT ARE EFFECTIVE SHOULD BE EXPANDED. THE PRIMARY COMPLAINT WE HEAR OF THE SBA IS THAT IT DOES NOT REACH ENOUGH FIRMS. COMMON SENSE TELLS US THAT THE ANSWER IS NOT TO ELIMINATE THE SBA,SO THAT IT CAN BENEFIT NO FIRMS, BUT TO ENLARGE ITS SCOPE, AUGMENT ITS RESOURCES, AND LOOK FOR MOST COST-EFFECTIVE PROGRAMS TO ACHIEVE ITS GOALS.

RECENTLY THE SBA HAS BEEN EXPANDING ITS PROGRAMS, BECOMING MORE THAN JUST A BANKER, LOOKING INSTEAD FOR WAYS AND FOR PARTNERS TO BECOME MORE EFFECTIVE IN SERVING THE MULTIPLE NEEDS OF SMALL FIRMS. WE ENCOURAGE THIS TREND, AND WE STRONGLY URGE YOUR COMMITTEE AND OUR ELECTED REPRESENTATIVES TO SUPPORT THIS TREND. THE SBA MUST BE GIVEN A MANDATE AND THE RESOURCES NECESSARY TO PROVIDE REAL ASSISTANCE TO OUR SMALL BUSINESSES AND THE COMMUNITIES DEPENDENT UPON THEM.

THE BROAD PROGRAM GOALS AND DEFINITIONS OF NATIONAL NEEDS COME, AS THEY SHOULD, FROM THE CONGRESS. TO SHIFT THE CENTER OF GRAVITY AWAY FROM NATIONAL LEADERSHIP IS TO COMPOUND THE DRIFT AND INERTIA THAT APPEAR TO BE CREATING THE CRISIS IN CONFIDENC IN OUR SOCIETY TODAY.

THE GUT ISSUES OF OUR DAY--BETTER SCHOOLS, JOBS, HOUSING, ECONOMIC DEVELOPMENT, AND DECENT HEALTH CARE ARE ALL ISSUES THAT TRANSCEND RACE AND REGION. SMALL AS WELL AS LARGE BUSINESSES HAVE VITAL ROLES TO PLAY IN BETTERING THE QUALITY OF LIFE FOR ALL CITIZENS.

IT IS, THEREFORE, OUR SHARED REPONSIBILITY TO REBUILD THE ECONOMY AND REKINDLE THE AMERICAN DREAM. SAVING THE SBA WOULD BE ONE STEP IN THE RIGHT DIRECTION.

THANK YOU.

Mr. SAVAGE. Thank you very much, Mr. Cotton.

Before we conclude this panel, I am going to question Mr. Green. Mr. Green, did you have any comment to add to Mr. Mason's comments?

Mr. GREEN. No; I have no comments at this time.

Mr. SAVAGE. Thank you very much, sir, for joining us.

Congressman Hayes.

Mr. HAYES. Mr. Chairman, may I say that this panel, as have the others who have preceded them, has given us the benefit of very comprehensive and excellent written testimony. Hence, my questions will be very limited.

I notice from the composition of the panel, with the exception of Mr. Cotton, who spoke on behalf of the Urban League, we have two people who are in the contracting business and one who is in the surety bond area. I think it is safe to say, with the exception of you, Mr. Shape, in this record we have heard, everywhere we have been, from the west coast to the South and to the east coast, many of the minorities who are in business would not have been able to get there without the Government support when it comes to getting surety bonds.

I must say to you two people, from the testimony I have heard you give, yours is a play of the same record. You would hardly be able to survive. You cannot borrow money, as we have heard, in most instances, without being able to show in advance that you have some kind of security.

Now, this is one of the programs that is proposed to be completely eliminated by the administration. They do not even propose to transfer this to the Department of Commerce. This would mean for you, Mr. Shape, loss of a large part of your business. What it could mean is that there is no tomorrow for you people who are in the contracting business. I am concerned about the ripple effect that it has on others, because you have some employees who benefit and whose families benefit from the jobs that they have with your firms.

Hence, we must do what we can. Mr. Shape, I wish you would take the time to reproduce just the last page of your testimony and mail it to Mr. Stockman, because I think what you have said in there is absolutely correct. Therefore, it will be on record, and I think it will help just a little bit.

I just want to conclude by saying thanks again for helping me with your testimony. I will scrutinize and study it, and be able to benefit from it. It is all part of the fight that is necessary for the survival of the SBA.

Mr. SAVAGE. For the sake of time, let me simply associate myself with my colleague's observations and assure this panel that your contributions will be quite important in our efforts to defend the programs in which you are interested.

Thank you very much.

We have one final person to testify, Dr. Robert McCullough. Would you come forward, please.

Dr. McCullough is chairman of the McCullough & Cartwright Pharmaceutical Co. of Chicago, IL. Dr. McCullough's company receives equity funding through SBA's small business investment company program unlike the other companies whose representatives were heard today. So we are particularly grateful that you are here with us.

Incidentally, the SBIC program would also be repealed under President Reagan's proposals.

Dr. McCullough, your statement is very short. Would you like to read it?

Dr. McCULLOUGH. Sure. I would be glad to.

TESTIMONY OF DR. ROBERT McCULLOUGH, CHAIRMAN, McCULLOUGH & CARTWRIGHT PHARMACEUTICAL CORP.

Dr. McCULLOUGH. I am Dr. Robert McCullough, founder and chairman of McCullough & Cartwright Pharmaceutical Corp., which is in Barrington, IL, a suburb of Chicago. McCullough & Cartwright specializes in the research, development, and marketing of products to the animal health field. McCullough & Cartwright addresses the veterinary field and the regional animal hog field. Products include veterinary and medical devices, laboratory testing services, and diagnostic tests. Currently, over 65 products are being sold in the United States.

McCullough & Cartwright employs over 25 people and should expand to approximately 40 to 50 by 1987. The biggest percentage of our products are subcontracted to 7 manufacturers which employ well over 200 to 250 people. The products after that point are then sold to national distribution chains that employ over 1,000 salespeople.

McCullough & Cartwright's major capital infusions were in January 1984, April 1984, and February 1985, from Frontenac Venture Capital Corp., with a major percentage of the capital from SBIC. In our startup company, a large portion was devoted to research and development, and we could not have existed without this financing.

Of equal importance to McCullough & Cartwright and myself is the help and the knowledge that we gained from the SBIC management personnel in establishing a proper management team as well as management support systems. McCullough & Cartwright would not have been developed without the support from the SBIC. Please do not abolish it.

Thank you.

Mr. SAVAGE. Let me ask you, Dr. McCullough, what type of assistance did you receive?

Dr. McCULLOUGH. Aside from the financing, they basically helped me find a management team, like a president to run the company, as well as their being on the board of directors, and aiding me in just about everything from the word go.

Mr. SAVAGE. Was it a loan or stock?

Dr. McCULLOUGH. No, no; stock. It is not a loan.

Mr. SAVAGE. In what amount?

Dr. McCULLOUGH. I do not have all the numbers with me, but I would guess it is around $200,000.

Mr. SAVAGE. Congressman Hayes.

Mr. HAYES. I do not think I have any questions. I think he is on our side; I see that.

Dr. McCULLOUGH. That is correct.

Mr. HAYES. I hope you make that known to others, to both sides of the House, please.

Dr. MCCULLOUGH. Yes.

Mr. HAYES. Thank you.

Mr. SAVAGE. Let me also thank you, Dr. McCullough, for taking the time to come before us. As a Representative of the U.S. House of Representatives from the Chicago area, I am sure that I speak for my colleague, Congressman Hayes. I am especially proud of the quality, the caliber of testimony that was given here today, and especially appreciative of the fact that you businessmen do not earn anything sitting here. We are very appreciative of it and hope to manifest that appreciation in the determination with which we will fight to defend the programs in which you all are interested.

Dr. McCullough, did you want to say something?

Dr. MCCULLOUGH. No; I was going to say thank you.

Mr. SAVAGE. With that, we declare that this hearing is adjourned, and we are on our way to Philadelphia for another.

[Whereupon, at 3:20 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

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